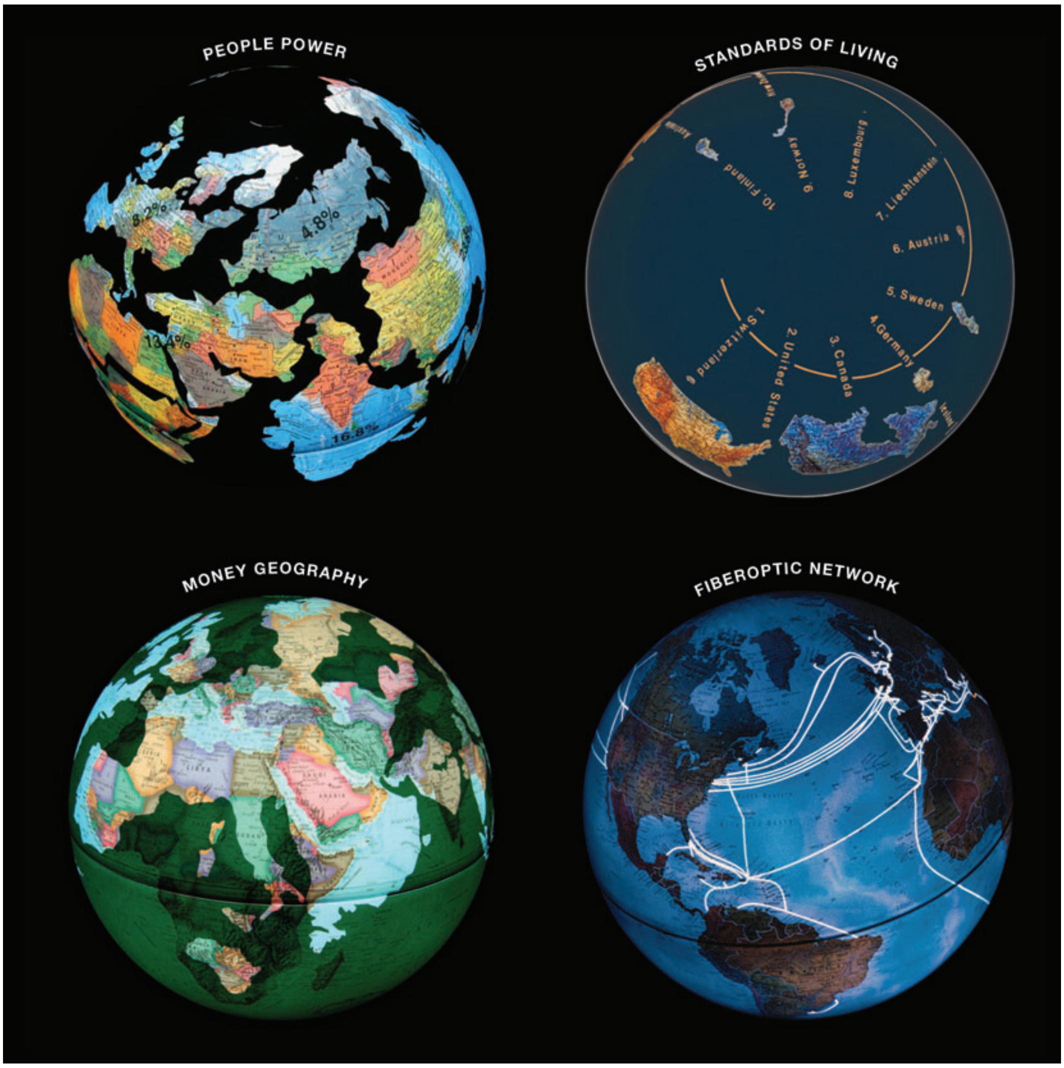
Seizing the White Space: Innovative Service Concepts in the United States

Technology Review 205/2007



Tekes

Seizing the White Space: Innovative Service Concepts in the United States

Peer Insight

Tekes

Technology Review 205/2007

Helsinki 2007

Tekes, the Finnish Funding Agency for Technology and Innovation

Tekes is the main public funding organisation for research and development (R&D) in Finland. Tekes funds industrial projects as well as projects in research organisations, and especially promotes innovative, risk-intensive projects. Tekes offers partners from abroad a gateway to the key technology players in Finland.

Technology programmes – Tekes' choices for the greatest impact of R&D funding

Tekes uses technology programmes to allocate its financing, networking and expert services to areas that are important for business and society. Programmes are launched in areas of application and technology that are in line with the focus areas in Tekes' strategy. Tekes allocates about half the financing granted to companies, universities and research institutes through technology programmes. Tekes technology programmes have been contributing to changes in the Finnish innovation environment for twenty years.

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Foreword

The present industry transformation has made service businesses important contributors to economic and employment growth in Western societies. Not only is this a result of the development and growth of service industries, but it also reflects the increasing significance of service business in various manufacturing industries. Service activities are essential for value creation both in service and manufacturing industries, and therefore boosting service related innovation is essential for growth and competitiveness in the whole economy.

This report presents 12 exemplars where US companies have successfully developed new service concepts and service business. The report highlights the heterogeneous nature of services by analyzing company cases from four industries: insurance and financial services, professional services (better known as knowledge-intensive business services, or KIBS, in Europe), wholesale and retail trade, and logistics. These cases provide us with successful service innovations and with examples of business models behind these service concepts. They also open our eyes to organizational elements and characteristics that are necessary for successful service innovation in companies.

This study has been completed as part of Tekes' technology programme Serve – Innovative Services, which is a five-year technology programme that aims to boost the development of innovative service concepts and new service business models. Serve provides Finnish companies and research organizations with project funding, national and international networks through seminars and industry specific forums as well as tools to support, for example, innovation and product management and IPR questions. More information of the programme is available on the web-page www.tekes.fi/serve.

The study has been conducted by Peer Insight LLC. Tekes would like to sincerely thank Stephen Ezell, Tim Ogilvie, Jeneanne Rae, Tamzyn Peterson and Margarita Rayzberg for their insightful analysis of not only the 12 exemplars but also of service innovation more generally. The team has also done excellent work in putting this report together. Thanks belong also to the 12 US companies who have shared some of their experiences from and best-practices in service innovation for this study. Without their valuable contribution this report could not have been realized. Tekes would like to thank collectively also all those people inside and outside of Tekes who have commented various drafts of the report.

On 27 March 2007 in Helsinki

Tekes

Acknowledgement

The authors of this report would like to thank the following individuals for allowing Peer Insight to profile their companies as innovative service exemplars: Kevin LaCroix (The Hartford), Jim Burnick (Bank of America), Peter Justen (MyBizHomepage), Steve Josey and Dave Jarrett (Crowe Chizek and Company LLC), Robert Rush (LRA Worldwide), Dick Putt (NineSigma), Kerry Byrne and Shannon Roeper (Total Quality Logistics), Steve Zannos (ServiceBench), Steve Van Till (Brivo Systems), Justin Crotty and Jennifer Baier-Anaya (Ingram Micro), Cal Lai (Sitoa), and Julie Parks (American Girl.)

Peer Insight would also like to thank Tekes for the opportunity to prepare this research study into innovative service concepts in the United States. Feedback about this report can be sent to Stephen Ezell of Peer Insight (e-mail: sezell@peerinsight.com).

The globes featured on the cover were designed by Ingo Günther, a highly regarded multi-media artist, journalist, and author based in New York. Born in Germany in 1957, Günther began using globes as a medium for his artistic and journalistic interests in 1989. He has worked as an accredited correspondent for the United Nations and has worked extensively for Japanese TV (NHK). He teaches art and media extensively in Europe, New York, and Tokyo.

The four globes presented on the cover suggest the complex interactions that make up the services era. Service innovation, as a phenomenon, is driven by many factors. Somewhere near the top of the list would be (1) the steady decline in the real cost of manufactured goods, (2) the rise in demand for "experiences," and (3) the ubiquity of information. To sum up these three factors, one could say that service innovation is borne of abundance.

Services rely on people, and "People Power" reinterprets the globe to show where the world's abundant population is located (percentage of world's population by region). "Standards of Living" (from 1994) arranges the globe in sequential order from highest to lowest standard of living. The United States (#2) and Finland (#10) are both in the top ten. (Note that a 2005 report from the Economist Intelligence Unit shows Finland drawing even with the United States in its Quality-of-life Index.) As services are now the dominant form of economic output, they are fundamentally linked to global economics. "Money Geography" correlates a country's size (and continent's land mass) to the economic output the country (and continent) generates. The superimposed (colored) images of Europe and Africa in "Money Geography" suggest the vast discrepancies in GDP between the countries on both continents. Finally, Günther's globe "Fiberoptic Network" plots the locations of the underwater fiber optic cables that make information abundant, and global Internet-enabled service offerings possible. Günther presented several of these globes for a 2006 exhibit at the World Bank/International Finance Corporation in Washington, DC. "People Power", "Standards of Living", "Money Geography", and "Fiberoptic Network" copyright Ingo Günther, 1988-2005.

Summary: Seizing the White Space: Innovative Service Concepts in the United States

A dramatic macroeconomic shift from goods to services has occurred in the economies of both the United States and European Union Member States. Services now dominate the U.S. economy, accounting for 82% of US output (GDP) and 85% of employment. For companies, the goods-era profit and growth model no longer delivers the results it once did.

American companies have generally responded more quickly than their European counterparts to this services-dominated economic landscape. Indeed, the United States contains some of the world's most innovative services companies, which are developing innovative new service concepts, experimenting with new services business models, and redesigning their organizational structures to drive innovation.

Tekes asked Peer Insight LLC to perform a study of innovative service concepts in the United States, highlighting companies at the cutting-edge of service innovation. This study profiles twelve exemplar companies drawn from four industries specified by Tekes:

- Insurance and financial services
- Professional services
- Wholesale and retail trade
- Logistics

The industries were selected as each represents key drivers of Finland's economy, which in 2005 was composed of 67.6% services, 29.5% industry and manufacturing, and 2.8% agriculture. Each of the exemplar case studies feature highly innovative service firms that are driving innovation in their respective industries.

The study also leverages Peer Insight's three-year investigation into service innovation at over forty Global 500 service corporations (listed on page 5) through the *Global Service Innovation Consortium.* That study analyzed 100 original service innovations developed by forty Global 500 corporations. The research was conducted over a three year period from January 2004 to January 2007. During that period, Peer Insight researchers conducted over 600 interviews with innovation practitioners responsible for the creation and development of new service offerings in their organizations. In addition to the twelve case study exemplars, this report draws key lessons, theoretical frameworks, and next practices from Peer Insight's broader research on service innovation at the company level.

Exemplar Selection Methodology

The exemplars studied on behalf of Tekes include a mix of small enterprises, medium-size enterprises, and large corporations, as table 1 shows. Specifically, the study profiles six small enterprises (less than $100M in revenues), three medium-size enterprises (revenues $100-$500M), and three large corporations (revenues in excess of $500M.)

Company Size	Employees	Revenues
Small Enterprise	<150	<$100M
Medium-Size Enterprise	150-2000	$100M - $500M
Large Corporation	>2,000	>$500M

Table 1. Defining Size of Exemplar Companies[1]

Nine of the twelve exemplars provide business-to-business (B2B) services, two provide both business-to-business and business-to-consumer (B2C) services, and one is solely business-to-consumer.

Having established the parameters of 1) Industry Focus, 2) Company Size, and 3) predominetly B2B orientation, Peer Insight developed a list of twenty potential exemplars for each industry category and screened them according to the following criteria:

1. Their development of an innovative service concept or business model that has altered the basis of competition in their industry.

1 This table uses U.S. definitions for enterprise size by employees and revenues; the European Union uses slightly different offical numbers.

2. Their development of deliberate organizational processes that drive service innovation in the company, such as their development of a centralized innovation function or a specific innovation process.

3. Their willingness to formally participate in the study by making personnel available for primary (telephone-conducted) research interviews.

Case Study Research Methodology

The study uses a mix of qualitative and quantitative research methodologies. Peer Insight researchers conducted primary phone-based interviews with at least three representatives from each exemplar company. In total, Peer Insight researchers conducted 64 interviews (averaging more than five interviewees per company) with the twelve service innovation exemplars. Peer Insight complemented the primary research with secondary research into public documents, records, and analyses of the exemplar companies.

An analytical model called ***The Ten Types of Innovation*** is used as a framework that forms the structure of each case study analysis. The Ten Types of Innovation framework describes ten primary forms, or "levers", of innovation in a firm. These ten types of innovation fall into four categories, relating to the firm's Process, Offering, Delivery, and Finance capabilities. The Ten Types of Innovation framework was developed by Larry Keeley at Doblin, a Chicago-based consultancy, in 1999, and is used with Mr. Keeley's permission.

The case studies use the Ten Types of Innovation analysis as a frame to explain how the exemplars developed innovative service concepts that are shifting the basis of competition in their industries.

Key Findings from the Research

The case studies reveal how service innovators go beyond the traditional types of innovation and explore the **white space** in their markets. That is, they look beyond the traditional competitive levers to uncover new ways to create value for customers. The analysis using the Ten Types of Innovation shows several new areas in which service companies are innovating – including the value network, the channel, and the business model – to create high-growth businesses. The most innovative firms in our research are skilled at (1) focusing on the white space that competitors have overlooked, (2) getting deep insight into customer needs in that white space, and (3) translating those needs into unique customer experiences.

Here are five key findings that support this emerging model of innovating in the white space:

1. **The customer is the new reference point.** The ***customer*** has replaced the ***direct competitor*** as the dominant reference point for strategy and innovation. In contrast to the goods-era economy, which had more rigid boundaries of channels and competition, the fluid nature of the services-era economy introduces: (1) competition from new and unexpected sources, (2) customers that are more informed and more demanding, and (3) opportunities for new, information-driven business models.

   In fact, perhaps the most important shift is that the customer experience has become the critical output of the services era. Customers make little distinction between goods and services, instead they are in search of compelling experiences and will reward the companies that provide those experiences with extraordinary loyalty and profitability. Companies such as Starbucks, Google and Whole Foods have successfully challenged conventional business wisdom through their uncanny instinct for delivering a compelling, branded customer experience.

2. **Changing who does what.** Many of the innovative service concepts in the research are based on shifting the traditional boundary of which party performs a given task in the value chain. In some cases the service firm takes over some part of the customer's complexity, enabling the customer to focus more on its core business (e.g., Ingram Micro.) In other cases, the service firm innovates by having the customer perform roles the company once performed (e.g., Sitoa.)

3. **The driving force of entrepreneurship.** The formation of almost every SME in the research study is a story of entrepreneurship. In most cases the entrepreneurs had years of experience within their industry, and formed their start-up because existing competitors in the industry were failing to address specific customer needs.

4. **IT as the services "factory."** IT capabilities are critical in service innovation because of the potential to "productize" (i.e., make more repeatable) the innovative service concepts. In many ways, IT is the production department of the services era in much the same way factories and machines were for the goods era.

5. **The Internet as the key distribution channel.** If IT is the factory of the services era, then the Internet is the trucks and roads. Many of the exemplars in our research, especially the SMEs, leverage the Internet either to directly create innovative new service concepts, or to reconfigure their value chains.

Implications for SME Businesses to Compete More Effectively

Most, if not all, of the findings from the research represent good news for Small and Medium Enterprises (SMEs), whether in the U.S., Finland, or anywhere else. The advantages of scale that exist in goods-based markets are much less relevant to services, especially information-based services. The research points to **four steps** SME businesses can take to compete through service innovation:

Step 1: Make your innovation intent explicit, and cultivate innovation within your culture. Nearly all of the exemplar firms spoke about their efforts to cultivate an innovation-centric culture. Each time, the discussion went immediately to concrete tools and techniques, including (1) techniques to give employees confidence to express their ideas, (2) ensuring tolerance of experimentation and failure, and (3) forums to connect people with different perspectives to foster fresh insights. These are firms that practice what they preach.

Step 2: Take advantage of the SME "winning formula": entrepreneurial passion + deep customer focus. Large corporations have size and scale, but they typically have *professional managers*, whereas SMEs have *entrepreneurial leaders.* The SME business environment is inherently more personal and people at all levels exhibit a greater degree of identification with the firm and its mission.

Moreover, large corporations organize their work to create economies of scale. They create complex, fragmented delivery models that rely on a diverse set of functional specialists. The resulting organizational boundaries greatly inhibit their visibility of customer needs. SMEs are much smaller and far less specialized. These structural differences create the opportunity for SMEs to better perceive unmet customer needs and explore niche business models that respond to those needs. The case examples in this report provide many examples of this formula for success.

Step 3: Focus on the "information value chain" the same way a manufacturing firm would view its physical supply chain, and nurture the capability to explore alternative business models that integrate or disaggregate that value chain. Most of the innovative value propositions in our research exhibit these characteristics. SMEs that can find opportunities in the information value chain have few disadvantages compared with large corporations. Information distribution costs have been equalized by the Internet. Most SMEs have equal or superior access to information technology talent. Furthermore, the nominal costs of IT infrastructure have decreased dramatically as processing and storage capacity have been commoditized. The SME that can (1) discover new potential in the information value chain and (2) experiment with new value propositions will be a highly successful service innovator.

Step 4: Tune your strategy and leadership behaviors to engage front-line employees. Human capital might not seem to be a fertile area for innovation, yet many of the exemplar companies we studied use strategies that result in exceptional levels of front-line employee engagement. NineSigma, for example, predominantly employs PhDs with ten years of experience in their clients' industries. Total Quality Logistics puts its 255 Logistics Account Executives through an intensive six-month training program. Crowe Chizek has been evolving its unique *Solution Creator* program for over seven years to identify and nurture the natural innovator in its firm. The best companies compete for talent based on the qualtiy of their innovation culture.

About Peer Insight LLC

Peer Insight LLC is a research and consulting firm focused on service innovation, customer experience design, and related topics. Our research forums help business leaders collaborate with their most admired peers based on hard facts, fresh thinking, and candid dialog. Our consulting services help companies create robust innovation engines. We help companies harness the innovation potential of their enterprise and focus it in the hands and hearts of inspired leaders and teams. For more information, contact Stephen Ezell of Peer Insight at (e-mail: sezell@peerinsight.com).

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1 Introduction

1.1 The Emerging Discipline of Service Innovation

The Macroeconomic Shift from Manufacturing to Services

A dramatic macroeconomic shift from goods to services has occurred. Over the past twenty years, the major industrialized economies, including the United States and the European Union, experienced a dramatic economic shift from goods to services. As figure 1 shows, the U.S. economy reached the tipping point in 1987, when goods and services accounted for equal proportions of the economy. Since that time services have steadily increased as a percentage of U.S. GDP, reaching 82% by mid-2006. At year-end 2006, 84% of all U.S. businesses were in services industries, accounting for 85% of U.S. employment and 76% of gross payrolls.

Table 2 below shows how important services are to the world's largest companies. Consider that:

- The world's largest firm is Wal-Mart, a mass merchandiser (retail service.)
- For the top-ten largest U.S. corporations (excluding energy companies), 66% of their revenues and 85% of their profits come from services.

In fact, what were once generally thought of as the Fortune 500 Industrial companies might now be better called the Fortune 500 Service companies.

We have not seen such a dramatic shift to our economic foundation since the turn of the previous century, when Western economies shifted from agriculture to manufactured goods. We should expect such a dramatic shift to have similar disruptive effects, and it has.

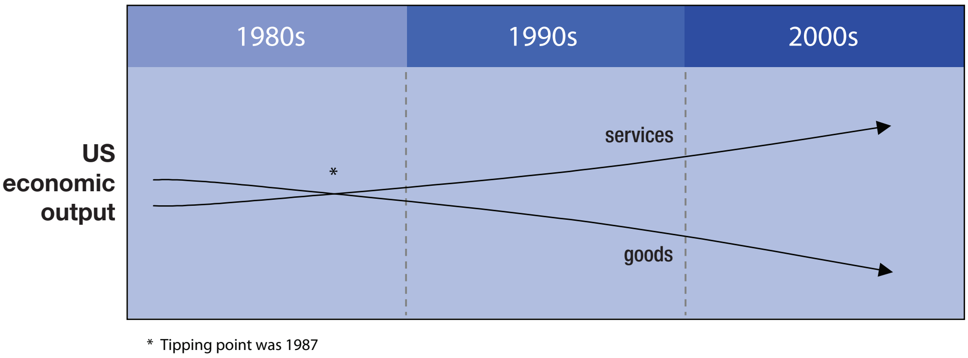


Figure 1. Macroeconomic Shift to Services

Top 10 non-energy firms 2005[1] (ranking)	Percent of 2005 revenues from services	Percent of 2005 profits from services
Wal-Mart (1)	100%	100%
GM (3)	18%	-[2]
Ford (4)	13%	-
GE (5)	49%	51%
Citigroup (8)	100%	100%
America International Group (9)	100%	100%
IBM (10)	56%	81%
Hewlett Packard (11)	20%	46%
Berkshire Hathaway (12)	100%	100%
Home Depot (13)	100%	100%
Average	**66%**	**85%**

Note 1: Table excludes energy companies; (#) in parentheses shows company's overall rank.
Note 2: "-" Indicates company not profitable in 2005.
Source: Annual Reports

Table 2. % of Revenues and Profits for Top Ten US Companies (non-energy) 2005

A Shift in Underlying Business Disciplines

The shift from goods to services has disrupted U.S. businesses in many ways. During the steady economic expansion of the 1980s, U.S. businesses grew via a simple formula: grow the top-line through mergers and acquisitions (M&A), then grow the bottom-line through disciplined application of quality principles (often referred to as Six Sigma[2] or operational excellence).

The quality revolution of the 1980s created immeasurable economic value. In the early 1990s the quality principles were adapted for application to white-collar processes in the form of business process re-engineering.

Figure 2 shows quality as the transformative business discipline of the goods-era. In the 1990s, business process re-engineering raised quality concepts above the factory floor and placed them in services contexts through Six Sigma principles. Into the 2000s, innovation has become the transformative business discipline of the services-era.

Arguments on the Loading Dock

Many of our senior leaders earned their stripes during the Quality Movement of the mid-1980s, when the modern science of quality was adopted by corporations.

Prior to the 1980s, much of what we believed about quality was wrong. We thought inspection was the key to success, and we made heroes of the rework department. The prevailing model of quality was to pit the VP of Production against the VP of Quality. At the end of each month, they would meet at the loading dock and have an argument about whether the monthly output was “good enough” to ship (and make their numbers) or should be held back and made to meet the quality standards.

Dr. W. Edwards Deming and Dr. Joseph Juran were among the superb minds that unlocked the potential of quality and helped it grow into a robust discipline. They showed us how to create quality at the source, not at the end of the line. Six Sigma became so successful and so transferable that virtually every company has a functioning program and it is no longer capable of driving significant (i.e., double-digit) growth on its own.

Case Example: GE

To understand this dilemma, just look at the case of GE. After fifteen-plus years of double-digit growth in the Jack Welch era, new CEO Jeffrey Immelt inherited a company that had an embedded (i.e., organic) growth rate of perhaps 5 – 6%. “We have to become a company that places bets,” he said in 2003.

Immelt’s words were a recognition that the underlying business disciplines that drove the goods economy were not sufficient to navigate the services economy. The emerging discipline that is driving growth could be called “customer experience-led innovation.”

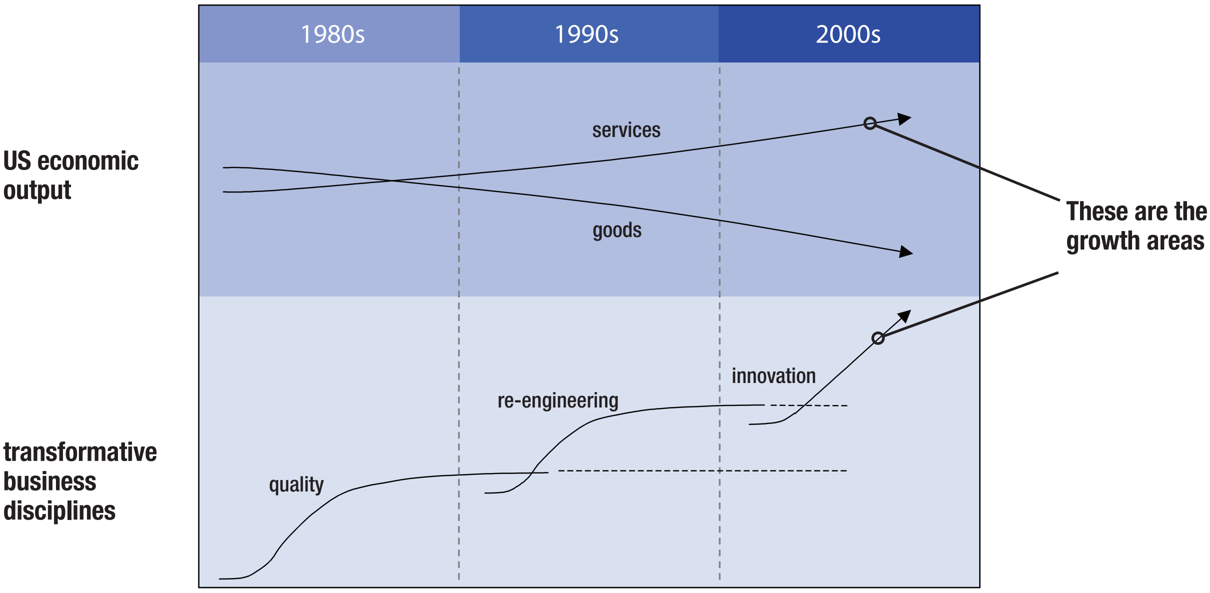


Figure 2. Transformative Business Disciplines

2 “Six Sigma” is a very common form of continuous improvement program in the United States. It emerged from the Quality Movement of the 1980s and provides a disciplined method of reducing defects, cycle time, and cost. It was popularized by firms such as Motorola, Xerox, and GE, and is still in common use today.

Service Innovation Lagging as a Discipline

So, firms are turning to innovation to drive growth because the old formula has run out of steam. Few firms can meet their growth targets through embedded growth and the M&A opportunities are limited and prone to low success rates themselves.

Unfortunately, the science of innovation is still a mystery. The innovation movement is where the quality movement was 25 years ago. The train has barely left the station, and service innovation is the caboose on that train.

But the lessons of the quality movement tell us what to expect in the next few years:

- Our knowledge of service innovation is incomplete
- Some things that we believe to be true about service innovation will prove to be inaccurate
- Deep research is needed to move toward a true science of innovation
- Our operating models will need to change

Six Sigma Methods Fall Short of Innovation

Rote application of Six Sigma methods will not be sufficient to enable innovation in the services-era. Firms that try to use their Six Sigma teams end up with a consistent complaint:

"There are no big ideas in our pipeline."

The Six Sigma emphasis on control and predictability is simply at odds with the essential spirit of high-potential innovation: *exploration and discovery*.

Figure 3 below lists several of the fundamental tenets of Six Sigma and shows how they will need to be adapted to fit the needs of customer experience-led innovation.

Where is the Academic Cavalry?

To further complicate matters, academic researchers have not yet taken the leadership role they did during the quality revolution. As a discipline, quality was aligned with the operations management group at academic institutions. It had a natural home.

But which academic department should own service innovation? Marketing has a role, but so does computer science, and strategy, too. And so does operations. Finally, consider what an important role *design* has in innovation, for both goods and services. Service innovation is naturally multi-disciplinary, a challenge that academia is ill-suited to address. Associate professors find it difficult to win tenure by focusing on (service) innovation.

In 2000, Professor Evert Gummerson of the Stockholm University School of Business recognized the limited contribution academia has made to the field of service innovation, commenting that, "We know no more about services today than people knew about iron during the iron age."

In September 2004, the Financial Times published an essay by UC-Berkeley's Henry Chesbrough entitled "A Failing Grade for the Innovation Academy." Chesbrough echoed Gummerson's comments, citing research by the National Academy of Sciences that concluded: "the academic research enterprise has not focused on or been organized to meet the needs of service businesses." Chesbrough went on to say:

"Most analyses of innovation tend to focus on products, not services. It is now time to update our curriculum for teaching and researching innovation to address the dominant sector of economic activity."

In fact, Europe is ahead of the U.S. when it comes to research focused on services. European governments, through agen-

Six Sigma innovation thinking		New requirements for customer experiecnce-led innovation
Eliminate variability (reductive)	→	Introduce variability when it creates preference
Eliminate waste	→	Allow the customer to judge what is waste
Minimize cost	→	Tolerate additional cost when it creates preference that outweighs it
Map processes	→	Map customer journeys
Test hypotheses	→	Explore important questions to make new hypotheses
Rely on large numbers to create certainty	→	Rely on small numbers to uncover new possibilities
Use process capability as final arbiter for decision making	→	Use demonstrated customer behavior as the final arbiter

Figure 3. Six Sigma vs. Customer Experience Led-Innovation Thinking

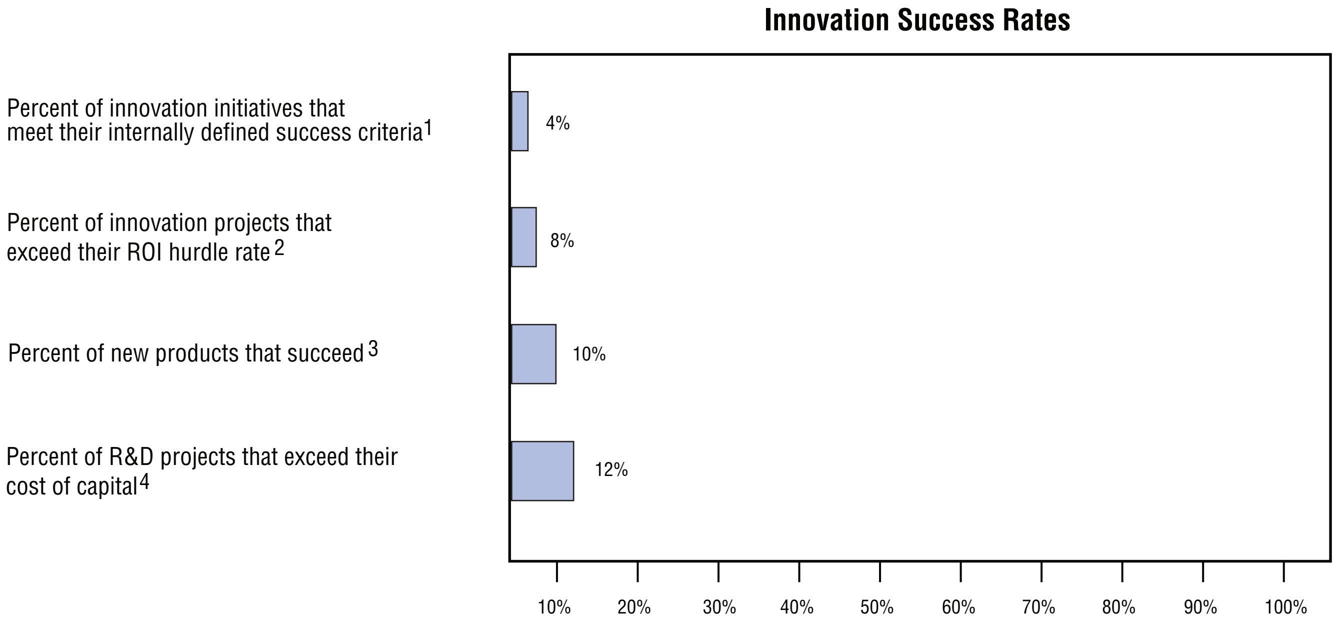
cies such as Tekes, have played a more active role in promoting national service innovation competitiveness. Responding to Chesbrough and Gummerson's calls, forward-looking academic programs in both the United States and Europe are beginning to organize to address the service innovation knowledge gap. We expect the new knowledge produced by academic institutions to become an important addition to the dialog on service innovation in the next five years.

Service Innovators Are Not Waiting for the Answers

Service innovators (in both US and foreign countries) have forged ahead to the best of their abilities. They are inventing the tools and methods they need as they go. For innovation practitioners, the best place to learn about service innovation is in the field, observing the most proactive companies and adopting their lessons.

In many cases, the lessons have been painful. We met one corporate SVP resigned to having to write-off a $20M IT investment to support a new service. "We just couldn't get it to market on the schedule we needed, and some little guys made it obsolete before we could even launch it."

The past ten years have been a period of high experimentation, but the success rates for innovation have always been low. Figure 4 below shows estimated innovation success rates from four different experts. The failure rate for innovations appears to be somewhere between 88% and 96%.



Note 1: Larry Keeley of Doblin Inc., from the upcoming The Taming of the New (HBS Press).
Note 2: Joyce Wycoff, Co-founder of the InnovationNetwork, provided this estimate in a May 2004 interview.
Note 3: Harvard Business Review, July - August 2004.
Note 4: Edwin Mansfield, "How Economists See R&D" (1981, Management Science).

Figure 4. Innovation Success Rates

1.2 Research Frame

About the Research: "The Tekes 12"

The "Innovative Service Concepts in the United States" research study uses two data sets: the Tekes 12 and the Peer Insight 100. Primary findings on service innovation in SME firms are drawn from case studies of the following twelve exemplar companies (listed in table 3) and drawn from the Insurance & Financial Services, Professional Services, Wholesale and Retail Trade, and Logistics industries. These case studies comprise the majority or research and analysis presented in the study.

Company and Industry	Description
Insurance & Financial Services	
The Hartford	Leading American financial services and insurance provider
Bank of America	America's largest retail bank with over 5,800 branches
MyBizHomepage	Web-based financial management dashboard for small businesses
Professional Services	
Crowe Chizek	Top 10 US Certified Public Accounting/management consulting firm
NineSigma	Revolutionizing practice of R&D outsourcing in commercial industry
LRA Worldwide	Pioneers in practice of Customer Experience Management (CEM)
Wholesale and Retail Trade	
Ingram Micro	World's largest distributor of IT products and services
Sitoa	Its e-tailing engine connects product suppliers to online retailers
American Gir	Leading experiential retail marketer of American Girl dolls
Logistics	
Total Quality Logistics	Rapidly-growing non-asset based third party logistics provider
ServiceBench	Integrates post-sale service management activities for clients
Brivo Systems	Provides remote access control and building security solutions

Table 3. Service Innovation Exemplars

About the Research: "The Peer Insight 100"

Additional insights into the practice of service innovation are drawn from a formal research program Peer Insight launched in 2004 to study service innovation programs from Global 500 corporations that rank #1 or #2 in their markets.

Today, Peer Insight's research database on service innovation includes over 100 recent projects from forty corporations across a broad base of markets and six countries. The research model relies on original research interviews with experienced practitioners. The analytical process captures practical insights from a diverse group of admired companies and places them in a broader context. This approach has enabled our research team to create a steady stream of new-to-the-world insights, many of which are described in the following pages.

Contributing companies in Peer Insight's ongoing global study of corporate service innovation include:

AARP	Harrah's	Pitney Bowes
ADT	Hewlett-Packard	Procter & Gamble
Apple	Intel	Progressive
ARCADIS	Johnson Controls	RIM
Bank of America	Lloyds TSB	ServiceMaster
Baxter Healthcare	Mayo Clinic	Siemens
CEMEX	McDonald's	Standard & Poor's
Crowe Chizek	Medtronic	Starwood Hotels
Diebold	Microsoft	Sun Microsystems
Enterprise	Motorola	Swisscom
GE Finance	NASDAQ	Syngenta
GE Healthcare	Navistar	The Hartford
GM OnStar	NetFlix	UPS
Hallmark Cards	Pfizer	Virgin

Research Frame: The Ten Types of Innovation

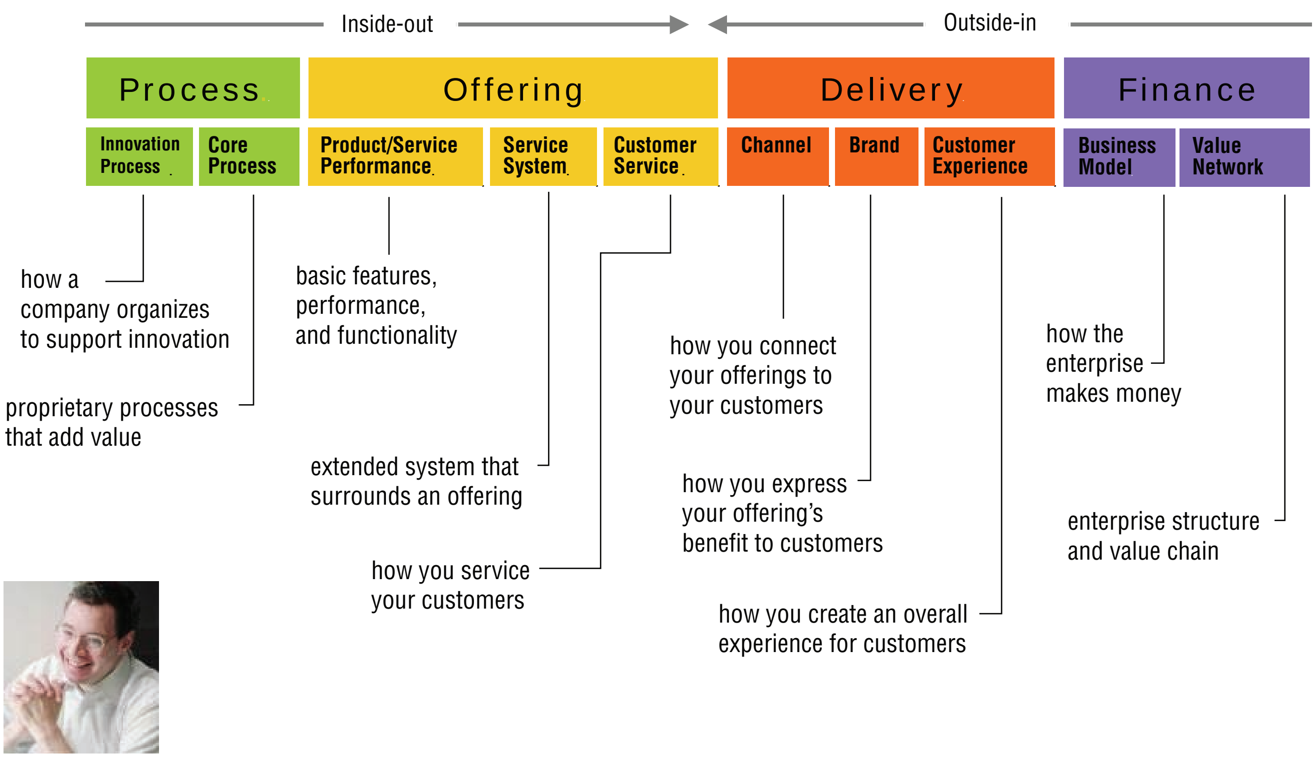
As low innovation success rates prove, innovation is a challenging business. One of the most fundamental traps is to think of innovation too narrowly, to define it merely as the *thing* your firm offers. Conversely, the single most powerful concept in innovation is *reframing*. Reframing consists of constructing a lens, and turning that lens onto something familiar to reveal new possibilities.

Larry Keeley, the President of Chicago-based Doblin, Inc., has constructed a very useful lens which he calls "The Ten Types of Innovation" (figure 5 below.) He was generous in teaching Peer Insight how to use the lens and in lending it to us for use in our research of service innovation.

The Ten Types of Innovation include two "inside-out" categories – Process and Offering – each with sub-elements (shown below). There are also two "outside-in" offerings: Delivery and Finance.

The inside-out perspective is similar to the traditional understanding of value chains. It asks, "What assets and/or core competencies does our firm have and what products or services can we produce with them?"

Outside-in thinking inverts this traditional perspective, asking instead, "What do our customers want, and how can our firm construct new business models or a new ecosystem of partnerships or external relationships to deliver it to them?"



"The Ten Types of Innovation", by Larry Keeley/Doblin Inc. (1999)

Figure 5. The Ten Types of Innovation

Looking at the Ten Types of Innovation through a case example – the rental car industry (shown in figure 6) – reveals its power. It is typical of many industries in that most of the competitive activity is focused on the Offering, especially one or two types of innovation within the Offering. This type of competitive activity can be thought of as "feature warfare," where no competitor gains an upper hand for very long, and costs escalate without creating customer preference.

Along comes a new competitor – in this case Enterprise – that focuses on the other types of innovation. These areas of low competitive activity represent the "white space" in which an innovation can be truly distinctive and confer more sustainable competitive advantage.

Enterprise exploited the white space by innovating the Delivery and Finance types of innovation, as shown in figure 7.

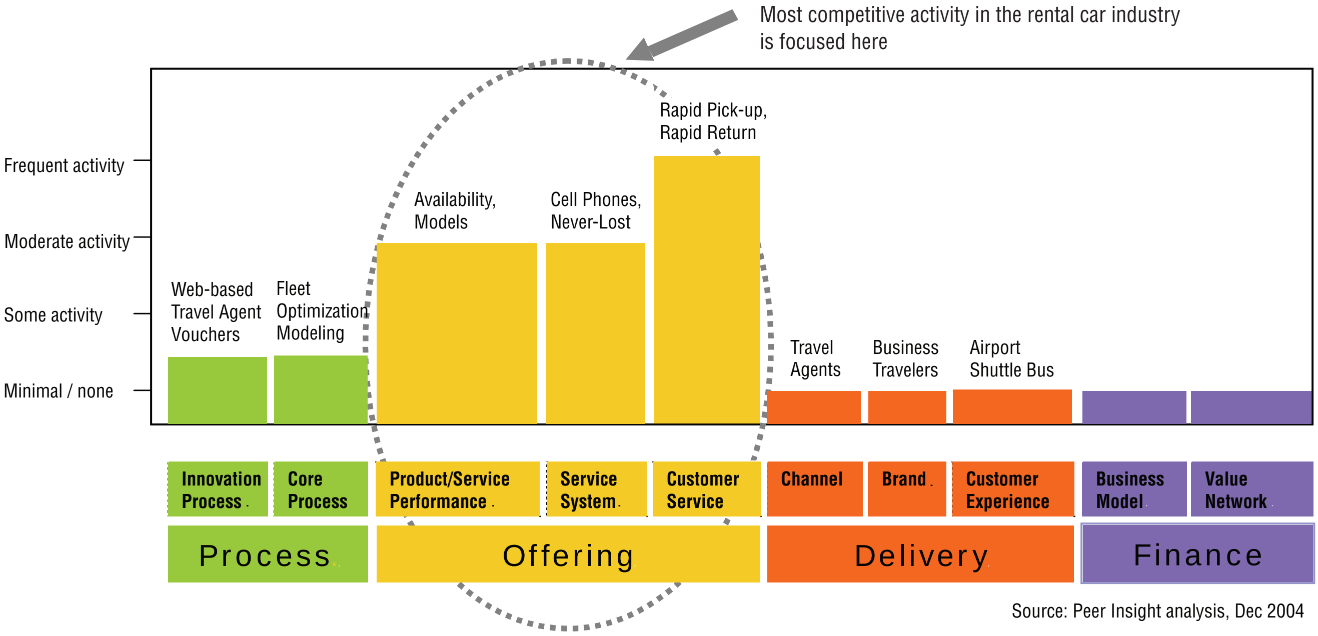


Figure 6. Analysis of Rental Car Industry by The Ten Types of Innovation

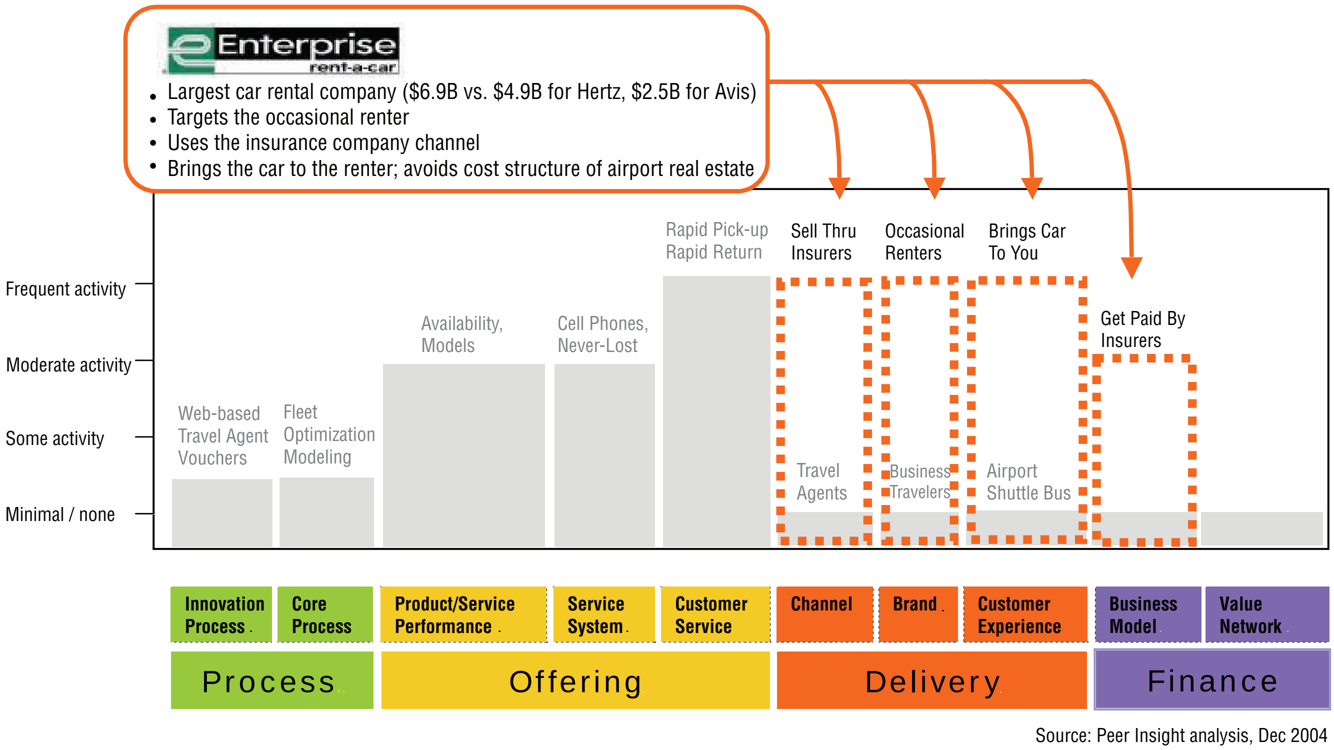


Figure 7. Enterprise Rent-a-Car Use of the The Ten Types of Innovation

1.3 Analysis and Findings

Peer Insight used the Ten Types of Innovation as the fundamental framework for analysis of both data sets, the Tekes 12 and the Peer Insight 100. We also have the benefit of Doblin's research into innovation from 1988 to 1998, a period we think of as the goods-era.

Figure 8 below compares the relative volume of innovation efforts focused on each of the Ten Types of Innovation. Doblin's analysis of the goods-era appears on the front line, and Peer Insight's 100 service innovation projects appear on the back line. The differences are striking.

Product-dominated firms spend the vast majority of their innovation efforts on Product Performance and associated components (the Product System). These two types of innovation alone represent nearly 80% of the total innovation level of effort for tangible goods.

As shown previously in the rental car example, this overemphasis on a few types of innovation reflects feature warfare. For goods-era firms, the lowest emphasis was placed on:

- Finance: Business Model
- Finance: Value Network
- Delivery: Customer Experience

Peer Insight's analysis of 100 service innovation projects (shown on the back line in figure 8) reveals a much more even distribution of effort. No single type of innovation is off the chart the way Product Performance is for tangible products (gap A). The more even distribution of effort for service innovations is rooted in the very nature of services: they are intangible. For this reason, consumers of services need more cues to judge quality than when they are consuming goods.

For example, in the U.S., a person may get tax advice in a Wal-Mart or from a $500/hour tax attorney. To judge the quality of tax advice, therefore, we may need to think about price, timeliness, the use of outside experts, how professional the receptionist was, the conference room we sat in, and who referred them to us. These considerations are rooted in Business Model (price), Core Process (timeliness), Networking (outside experts), Customer Service (receptionist), Customer Experience (conference room), and Brand (referral).

The example above may explain why service innovations devote more effort to the overall Customer Experience (gap B) than any other type of innovation. The second most common focus for service innovation is Core Process (gap C) because that is where the IT systems and service fulfillment processes are developed. IT can be thought of as the services "factory", since robust IT systems can make complex customer experiences less expensive and more reliable.

Finally, services are far more likely than goods to innovate the Business Model (gap D). In the goods-era, the Channels, Business Models, and Value Networks were relatively fixed. But services environments are highly fluid, and the rise of the Internet has made distribution of information-based services essentially free, enabling a number of new potential business models.

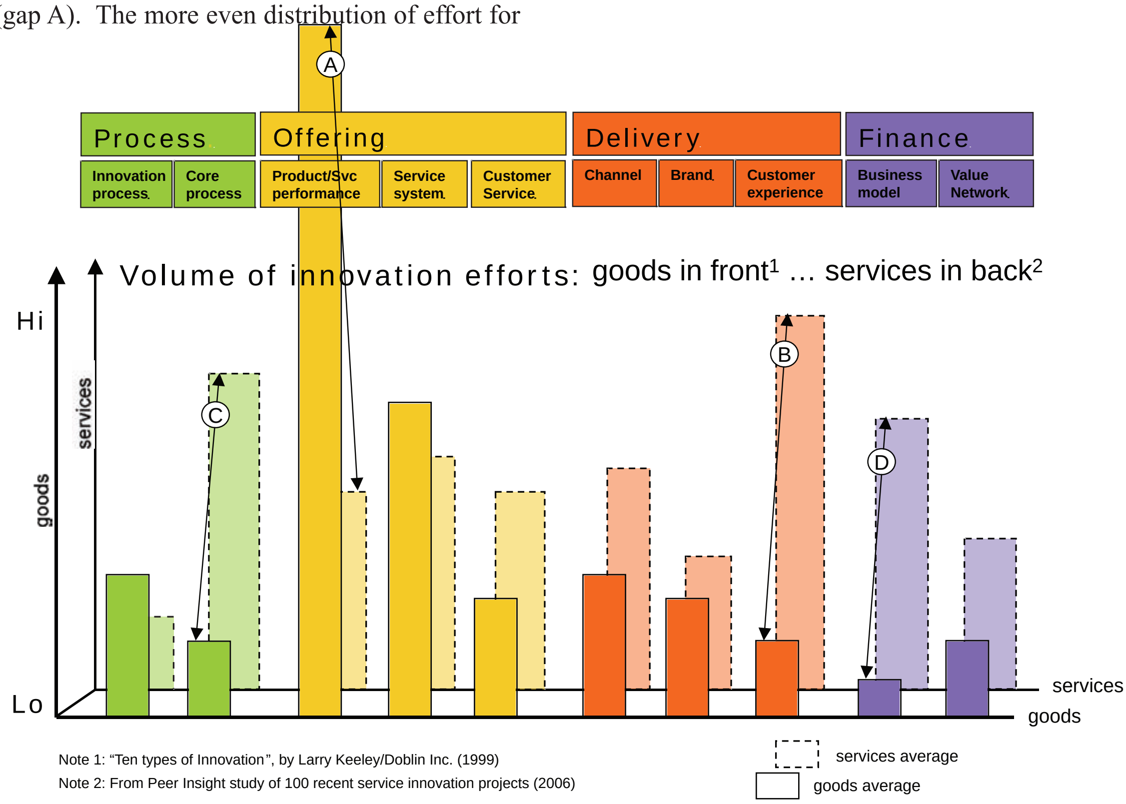


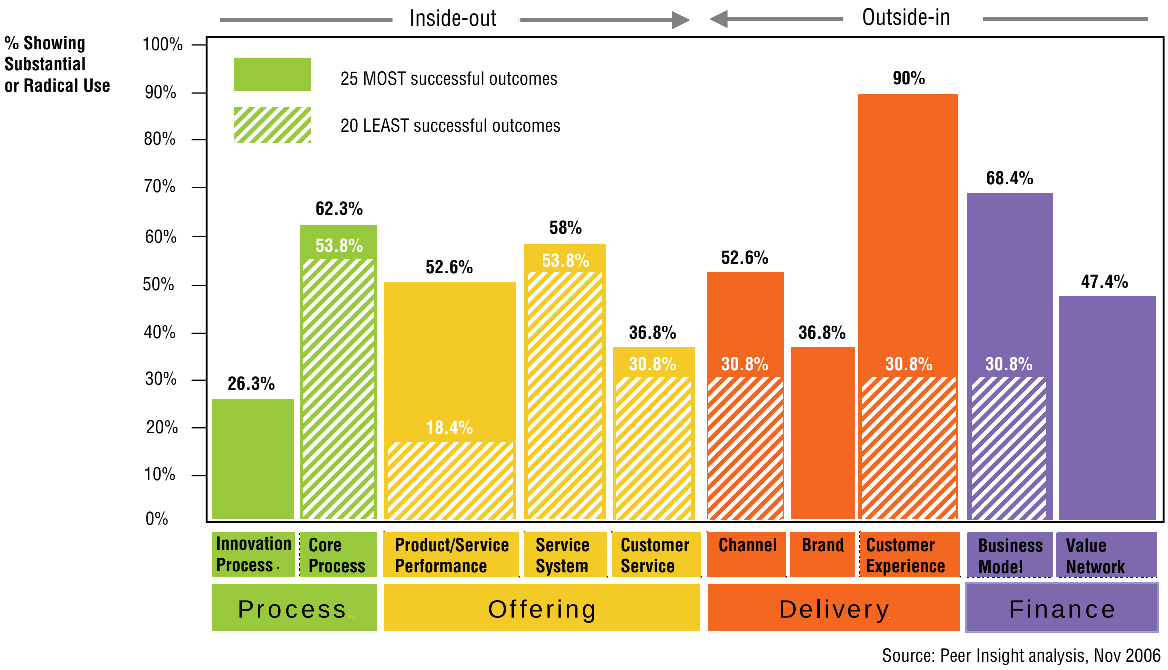
Figure 8. Volume of Innovation Effort for Goods and Services

Analysis: Use of The Ten Types of Innovation in the Peer Insight 100 Research Study

Peer Insight contrasted the 25 MOST successful service innovation projects in our research with the 20 LEAST successful projects (figures 9 and 10). The results of this analysis demonstrate how important an "Outside-In" model of innovation can be when developing new services.

The top two areas where the MOST successful projects stood out were (1) "Customer experience" and (2) "Value Network." "Business model" and "Brand" were right behind those two types of innovation.

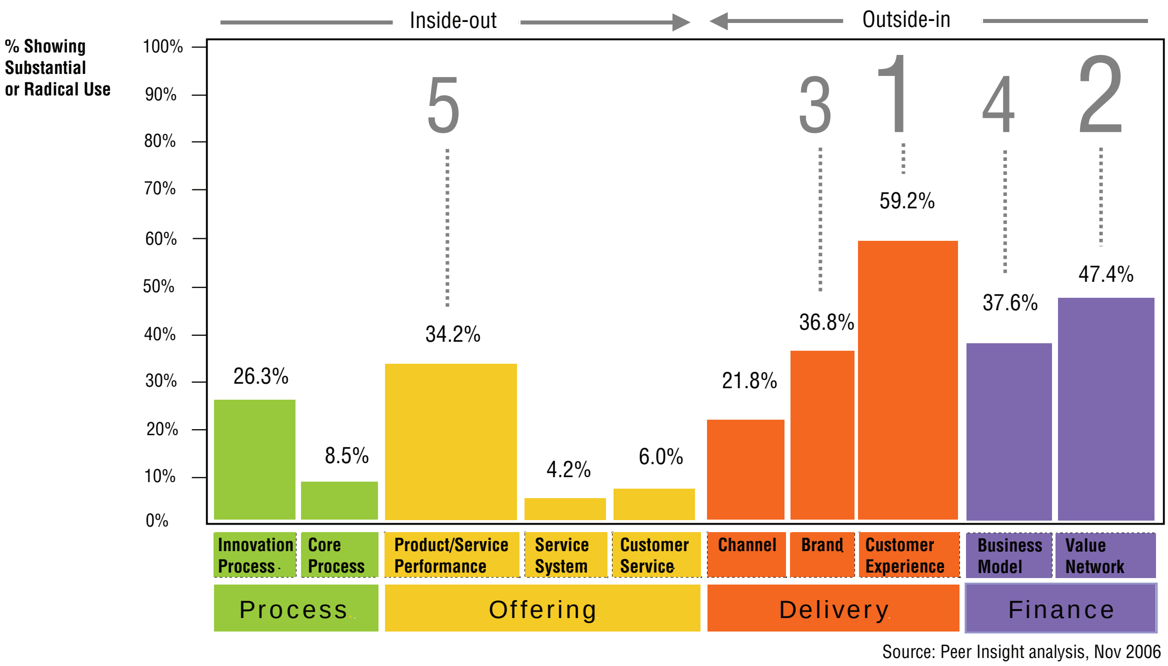
Figure 10 highlights the five types of innovation that show the greatest disparity in use between the most and least successful projects in the Peer Insight 100. The label above each type of innovation in figure 10 (e.g. 8.5%) states the actual percentage difference of use for each type of innovation between the most and least successful projects.



Source: Peer Insight analysis, Nov 2006

Note 1: Figure shows the difference in percentage of use of each of the Ten Types of Innovation between the 25 most successful and twenty least successful projects in the Peer Insight 100 data set.

Figure 9. Correlating Service Innovation Outcomes to The Ten Types of Innovation[1]



Source: Peer Insight analysis, Nov 2006

Figure 10. Differences Between Most and Least Successful Service Innovations

Analysis: Comparing the Tekes 12 to the Peer Insight 100

Figure 11 below compares the use of the Ten Types of Innovation between the Tekes 12 and the Peer Insight 100 companies. The patterns of use of the Ten Types of Innovation among the Tekes 12 exemplar innovators closely mirrored Peer Insight's wider study in two key areas: (1) the focus on customer experience and (2) the importance of business model innovation. Both studies confirm Peer Insight's belief that customer needs – not direct competitors – have become the primary reference point for strategy in the services era.

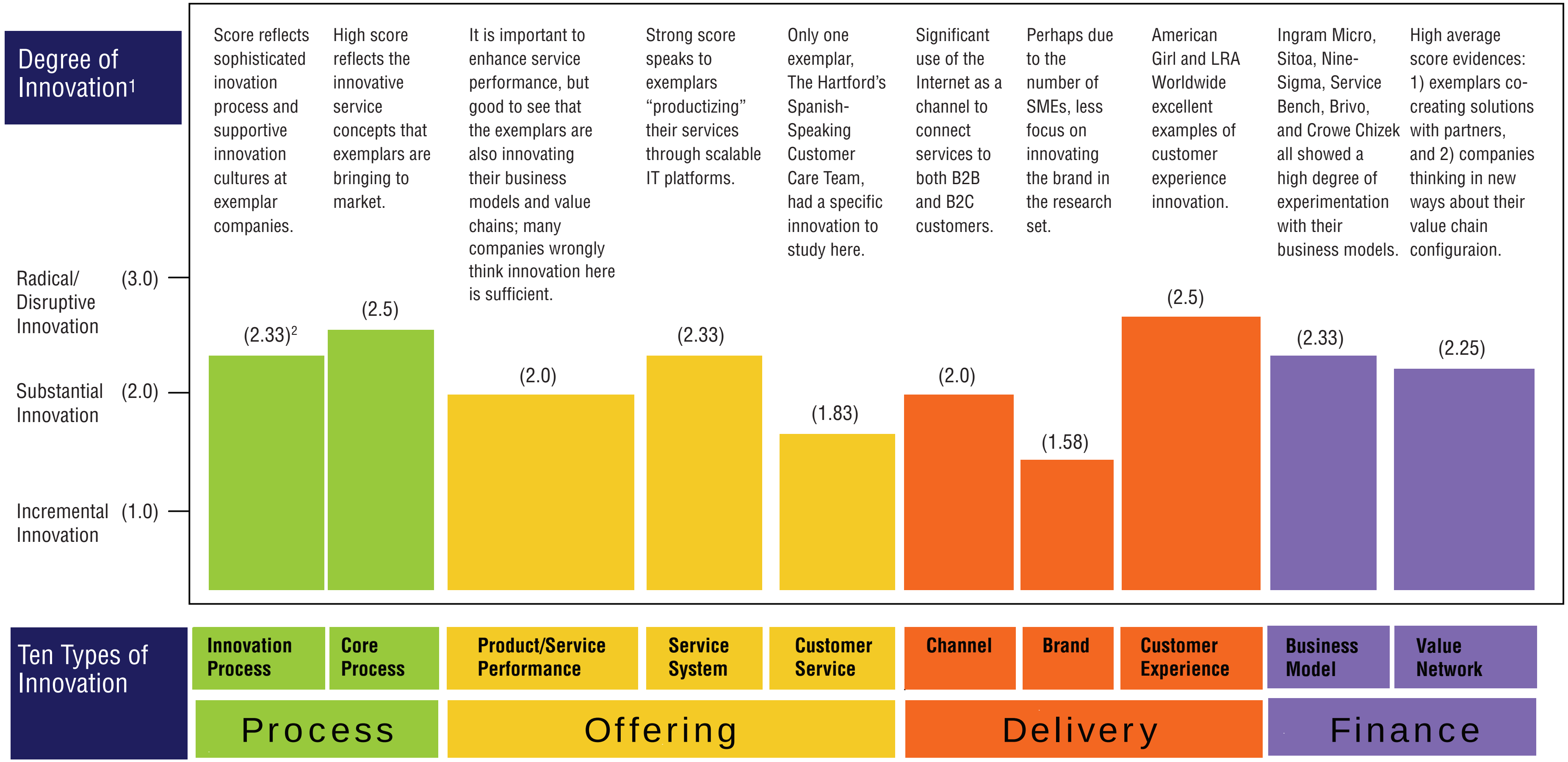
As figure 11 shows, Customer Experience was the most heavily emphasized type of innovation in both studies. Our discussion on page 12 will show there is a close correlation between emphasis on Customer Experience design and successful outcomes for service innovations. Business Model innovation was the third most frequently used type of innovation in both studies. Many of the case examples include shifting the boundaries of which party performs certain tasks in the value chain. When these boundaries move, business models change.

The biggest difference in the use of the Ten Types of Innovation between the two data sets was seen on the process side, where the Tekes 12 showed a higher emphasis. This difference may be due to the fact that several of the SMEs in the Tekes 12 (e.g., Sitoa, Brivo Systems, and NineSigma) were conceived and built upon fundamentally new core processes, unlike the more established companies in the Peer Insight 100.

The lesser use of brand innovation within the Tekes 12 reflects the B2B and SME bias from that data set. The Peer Insight 100 has nearly 40% B2C companies, which are typically more brand-focused than their B2B counterparts. Furthermore, the Peer Insight 100 participants are primarily Global 500 companies, and nearly all employ sophisticated brand strategies with significant investment budgets.

Figure 12 on the following page provides a more detailed discussion of specific patterns of use of the Ten Types of Innovation among the Tekes 12 companies.

Figure 11. Comparing Use of the Ten Types of Innovation between the Tekes 12 and the Peer Insight 100



Note 1: Defining the "Degree" of innovation in the Ten Types of Innovation Analysis

Incremental Innovation: Ongoing improvement efforts to existing operations that enhance efficiency/productivity. (Six Sigma-type initiatives.)

Substantial innovation: A substantially different and novel application of one of the ten types of innovation; establishes clear superiority over industry competitors.

Radical/disruptive innovation: Radical advances that fundamentally alter the basis of competition in an industry (and/or introduces a "new-to-the-world" innovation.)

Note 2: Indicates average score for use of innovation type across the twelve exemplars

Figure 12. Analysis of Twelve Tekes Exemplars by The Ten Types of Innovation

Analysis: Principles of Customer Experience Design

Peer Insight analysts studied 92 projects (taken from the Peer Insight 100) plus the 12 Tekes projects, looking for evidence of "robust customer experience design." Figure 13 shows the 25 most successful projects from the Peer Insight 100 research in dark blue. Nineteen of the 25 (76%) most successful projects showed "solid evidence" or "most evident" use of cX design methods.

Doing a thorough job of customer experience design is not a guarantee of success (note the 7 projects at the upper right in the "Most Evident" column that were not among the most successful outcomes), but there is an obvious correlation to success.

The twelve Tekes projects (shown in orange) were all chosen because they were successful. These projects closely reflect the distribution of the 25 most successful projects in the broader study.

Companies receiving scores of "solid evidence" or "most evident" for use of robust customer experience design methods used many of the following ***best practices*** listed below.

- Start with unmet user needs, not new ideas
- Research methods that are based on deep customer empathy (e.g., ethnography)
- Focus is on the customer journey – not merely your own touch points
- Emphasis on identifying and winning the moments of truth
- Rapid, low-fidelity service prototyping
- Open innovation – including the customer in the earliest stages
- Open innovation – bringing together a unique value network
- Creating evidence of the brand attributes within the touch points
- Use of storytelling to convey the experience intent
- Overcoming metrics that run counter to creating compelling experiences
- Creating a broad view of experiences – going beyond marketing and into operations and IT

Table 4. Best Practices in Customer Experience Design

Several exemplars in the research set competed primarily on the basis of customer experience:

- The professional services firm LRA Worldwide has built a 100+ person consulting firm focused on Customer Experience Management. LRA helps clients "operationalize their brand", so that the brand promise they make gets fulfilled in the experiences their customers have with the firm.
- Total Quality Logistics disrupted the third party logistics market by substantially raising customer service standards in the industry. By building an information technology platform that allows it to provide unequalled visibility and transparency into client's freight shipments, it created an entirely new experience for customers in the industry.
- American Girl is a leading experiential retailer that delivers such exceptional in-store customer experiences that it has become something of a cultural phenomenon for young girls in the United States.
- Other exemplars, like Bank of America and Ingram Micro, scored highly for their thoughtful design of carefully-crafted customer experiences.

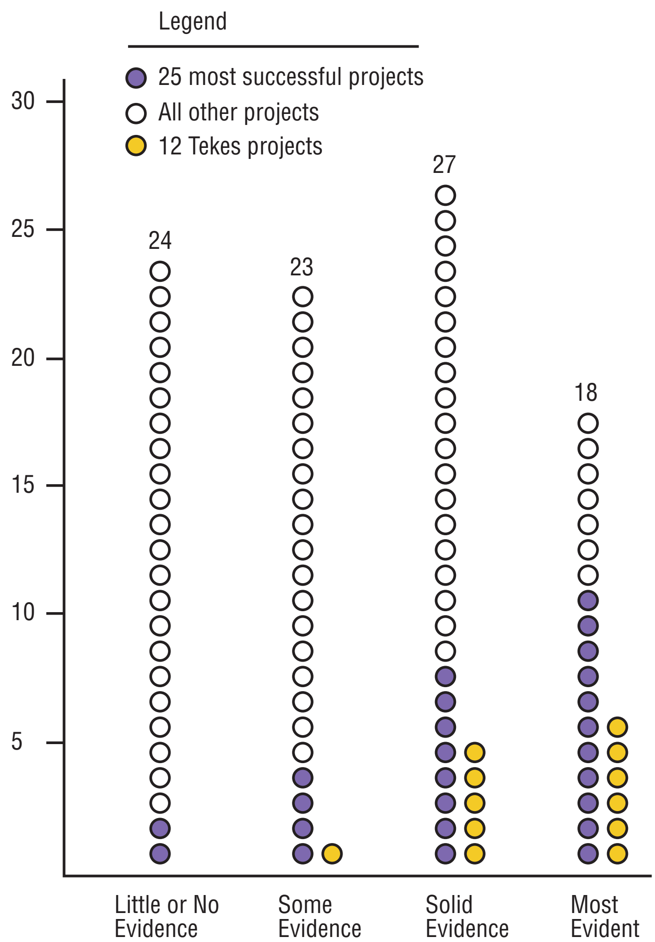


Figure 13. Evidence of Robust Customer Experience Design Methods

Analysis: Value Propositions Seen in the Research

When analyzing the innovative service concepts brought to market by the twelve Tekes exemplars, a number of themes began to emerge. Table 5 on the following page lists seven different value propositions employed by at least three different exemplars each. For each, we explain the *functional service* and *emotional benefit* the value proposition provides the client. While many tend to think emotional considerations are only relevant in B2C markets, they are no less at play in B2B environments, where insightful marketers can tap into underlying emotional concerns of buyers. Ingram Micro, for example, markets its managed services directly to CEOs of SME clients, appealing to how emotionally invested they are in their businesses.

General Electric's Aviation division created another powerful example of a service offering that addressed both the functional and emotional needs of a client. The company has shifted from selling aircraft engines to airlines to selling them "aircraft thrust", or "guaranteed uptime." GE has thus moved from selling clients a depreciating asset, to selling a promise that GE will bear responsibility for getting an aircraft into the air at the appointed hour. The service appeals directly to airline CFOs, who get capital assets off their companies' books. It also appeals to maintenance engineers, who now have a partner they trust to help them meet the "uptime" requirements for their aircraft, providing emotional reassurance to mechanics that they will be able to fulfill their duties.

Among the exemplars, 9 of 12 (75%) provide a service that ***manages some element of complexity*** in their client's operations, allowing the client to focus on its core competencies. For example, Sitoa helps retailers manage the complexity of integrating up to 30,000 product suppliers into their IT systems. Bank of America's *Keep the Change* program actually helps consumers overcome the sometimes emotionally difficult task of *saving*.

Half the exemplars provide services that directly and specifically help clients ***enhance their productivity***. For example, Crowe Chizek's *Navigator* and *Revenue Cycle Analytics* solutions help automobile dealerships and healthcare organizations, respectively, increase their productivity. LRA Worldwide's *Touchpoint Manager* is likewise a quality assurance management solution for hospitality clients.

Three-quarters of the exemplars provided services or tools that ***increase transparency*** into their client's operations, enabling clients to react to changes faster through greater visibility into their businesses. MyBizHomepage's Web-based financial management dashboard updates the financial performance of SME clients through a link to QuickBooks each time they login to the MyBizHomepage. The company's clients use the service up to seven times a day to get a real-time view of their financial activity. Most exemplars leveraged the Internet to give clients greater visibility into their operations.

Related to this are services that ***remove or minimize uncertainty*** in a client's operations. These services are emotionally appealing because they enable clients to make decisions with more confidence. ServiceBench's software-as-a-service solution includes service intelligence analytics modules that mine data on service claims, warranty claims, and technician performance. The feature helped one major manufacturing client to identify that up to 15% of the warranty claims made against it were fraudulent.

A number of exemplars spoke about specific strategies to ***enhance stickiness and engagement*** with clients. American Girl sought to build sticky relationships through its memorable in-store customer experiences. Ingram Micro uses communities as a go-to-market strategy that increases engagement with its VAR customers. In interviews, almost every exemplar mentioned specifically the words engagement and stickiness – and strategies to promote them.

Several exemplars developed services that helped clients ***deliver solutions to end-using customers***. With its *Seismic* managed services offering, Ingram Micro wholesales remote network monitoring and management services that VARs in turn sell to their clients. Likewise, Brivo Systems wholesales its building security and access control solutions to security industry dealers and distributors such as ADT who sell to end-users.

Both NineSigma and Sitoa ***create bi-directional value propositions*** that connect two (or more) stakeholders together in ways not possible before the advent of the Internet. NineSigma connects Innovation Seekers at Fortune 500 companies to a global network of solution providers, while Sitoa connects product suppliers to online merchants ("e-tailers") through an information technology platform.

Other value propositions/strategies seen in the research include:

- Helping clients maximize their capacity utilization.
- Services with predictive features that can proactively detect downstream failure modes of devices in advance. Several customers were able to not only detect but also remedy problematic networks or devices remotely.
- Helping clients shift from product consumption to service consumption. This particularly helps clients because they can move from carrying depreciating capital assets on their books to accounting for services as an expense (which receives favorable tax treatment in the United States.) This was seen commonly in the Peer Insight 100 data set, as companies sought to shift from selling their wares as products to selling them as services (a strategy sometimes called product servicization.)

FUNCTIONAL SERVICE TO CLIENT	The Hartford	Bank of America	MyBiz Homepage	Crowe Chizek	Nine Sigma	LRA Worldwide	Ingram Micro	Sitoa	American Girl	Total Quality Logistics	Service Bench	Brivo Systems	EMOTIONAL BENEFIT TO CLIENT
Manage the complexity in client's operations			√	√	√	√	√	√		√	√	√	Allow client to **focus on its core competencies**
Provide a service that directly contributes to increasing **client's productivity**	√		√	√			√				√		Client sees service provided as **empowering its business operations** with enhanced productivity
Increase transparency into client's operations			√	√	√	√	√	√		√	√	√	Allow client to **react to changes faster through** greater visibility
Provide tools that **remove or minimize uncertainty** in client's operations		√	√	√		√	√	√		√	√	√	Empower client to **make decisions with more confidence**
Create **stickiness** and **engagement** with client by providing **multilayered services**	√	√	√	√	√	√	√	√	√		√		Present vision of **potential relationship growth**
Provide solutions that **help clients empower their customers**			√				√					√	Know that service provider sees downstream to the **end-user's** needs
Create a **bi-directional** value proposition that marries a fragmented information supply chain					√			√			√		Connects **stakeholders** together in venues not previously possible

Table 5. Value Propositions Used by Research Exemplars

Analysis: Key Findings and Implications for SMEs

1. **The customer is the new reference point.** The *customer* has replaced the *direct competitor* as the dominant reference point for strategy and innovation. In contrast to the goods-era economy, which had more rigid boundaries of channels and competition, the fluid nature of the services-era economy introduces: 1) competition from new and unexpected sources, 2) customers that are more informed and more demanding, and 3) opportunities for new, information-driven business models.

   Implication for SMEs: This structural shift favors SMEs because it is often easier for SMEs to be customer-centric than for large enterprises. SME business structures have flatter organization designs with less specialization, making it easier to develop an integrated view of unmet customer needs.

2. **The driving force of entrepreneurship.** The formation of almost every SME in the case studies is a story of entrepreneurship. In most cases the entrepreneurs had years of experience within their industry, and formed their start-up because existing competitors in the industry were failing to address specific customer needs.

   Implication for SMEs: Along with key finding #1 (above), the potential for entrepreneurship within SMEs creates a "winning formula" for innovating in services: entrepreneurial passion plus deep customer focus. SMEs that turn these attributes to their advantage can compete very successfully with large organizations.

3. **Changing who does what**. Many of the innovative service concepts in the research are based on shifting the traditional boundary of which party performs a given task in the market value chain. In some cases the service firm takes over some part of the customer's complexity, enabling the customer to focus more on its core business (e.g., Ingram Micro). In other cases, the service firm innovates by having the customer perform roles the company once performed (e.g., Sitoa).

   Implication for SMEs: Innovation efforts should focus on analyzing the traditional supplier-customer roles in your business segment. Are there opportunities to take responsibility for tasks the customer has traditionally performed? Are there opportunities to let your customer perform tasks that you are accustomed to performing? These small shifts can unlock new value for both parties.

4. **IT as the services "factory."** IT capabilities are critical in service innovation because of the potential to "productize" (i.e., make more repeatable) innovative service concepts. In many ways, IT is the production department of the services-era in much the same way factories and machines were for the goods-era.

   Implications for SMEs: While SMEs have more modest IT budgets and staffing than large organizations, market forces have reduced IT advantages based on scale. SMEs should look to IT to create scalability in their businesses in exactly the same way larger firms do.

5. **The Internet as the key distribution channel.** If IT is the factory of the services-era, then the Internet is the trucks and roads. Many of the exemplars in our research, especially the SMEs, leverage the Internet either to directly create innovative new service concepts, or to reconfigure their value chains.

   Implication for SMEs: The service innovation strategy of every SME should take advantage of the Internet. Although many advanced capabilities will seem beyond your grasp at first, many service providers offer shared-cost participation models that let SMEs experiment without adding infrastructure cost.

Opportunities in the Information Value Chain

Key findings #4 and #5 above highlight an important characteristic of services markets: they often rely on an information value chain that is analogous to the physical supply chain for a manufacturing firm. The innovative service firms in our case studies carefully nurture their capability to find opportunities in the information value chain and explore alternative business models that address those opportunities.

Most SMEs that can find opportunities in the information-value chain are just as capable of exploiting those opportunities as their large corporate competitors. As noted above, information distribution costs have been equalized by the Internet. Furthermore, the nominal costs of IT infrastructure have decreased dramatically as processing and storage capacity have been commoditized.

The SME that can: (1) discover new potential in the information value chain and (2) experiment with new value propositions, will be a highly successful service innovator.

However, as the examples of NineSigma and LRA will show, while services firms can leverage the Internet and or information technology platforms to create new service concepts, this does not represent a replacement of fundamental techniques of good customer relationship management. High standards of customer service, support, and responsiveness – ideally tied together with a deliberately-designed customer experience – remain essential even for services companies that build their offerings through technology.

1.4 The Service Innovation Adoption Curve

Peer Insight's research – including both the Tekes 12 and the Peer Insight 100 studies – has revealed a typical adoption curve (figure 14) of companies adopting service innovation at different rates. It is framed by ***Geoffrey Moore's*** work in Crossing the Chasm: companies range from leading edge to laggards. The stages of the innovation journey are:

Laggards	Do ***nothing*** (stay the course)
Late Majority	Do innovation ***experiments***
Early Majority	Execute innovation ***projects***
Early Adopters	Develop innovation ***programs***
Leading Edge	Create an innovation ***culture***

1990s Starting Point: M&A plus Six Sigma

In the 1990s, U.S. companies grew primarily through mergers and acquisitions. Then they applied Six Sigma, Lean, or similar process improvement methods to reduce their costs and grow their profits.

This growth model permitted a high degree of specialization. The strategy group chose the markets to enter. The M&A group sought acquisition targets. The Operations group took out cost.

Innovation is a discipline that drives *organic growth*. Unlike the M&A growth model, innovation requires all the functional organizations of a company to work together to cause something new to come into existence. Successful innovation does not lend itself to specialists only working on their portion of the problem.

The work of innovation gets done through collaboration across disciplines. This creates a natural innovation advantage for Small and Medium Enterprises (SMEs), which are inherently less specialized.

Moving Towards Innovation 1.0

The first stage beyond "M&A + Six Sigma" is one of experimentation. Many U.S. companies initiated experiments in organic growth during the late 1990s.

If a company had an expensive failure in one of these early experiments, they probably retreated to the status quo. We call the experimentation phase "No Man's Land" because companies do not stay there for more than a year. They either go forward or they go back.

Many companies did go forward, drawing encouragement from their experiments. One senior manager in our research group said:

> *"We realized that innovation was different (from what we thought), but if we applied ourselves, we could learn to do it well."*

The lesson companies learn during this phase is:

> *Lesson #1: Innovation is a new discipline requiring work across boundaries using design thinking.*

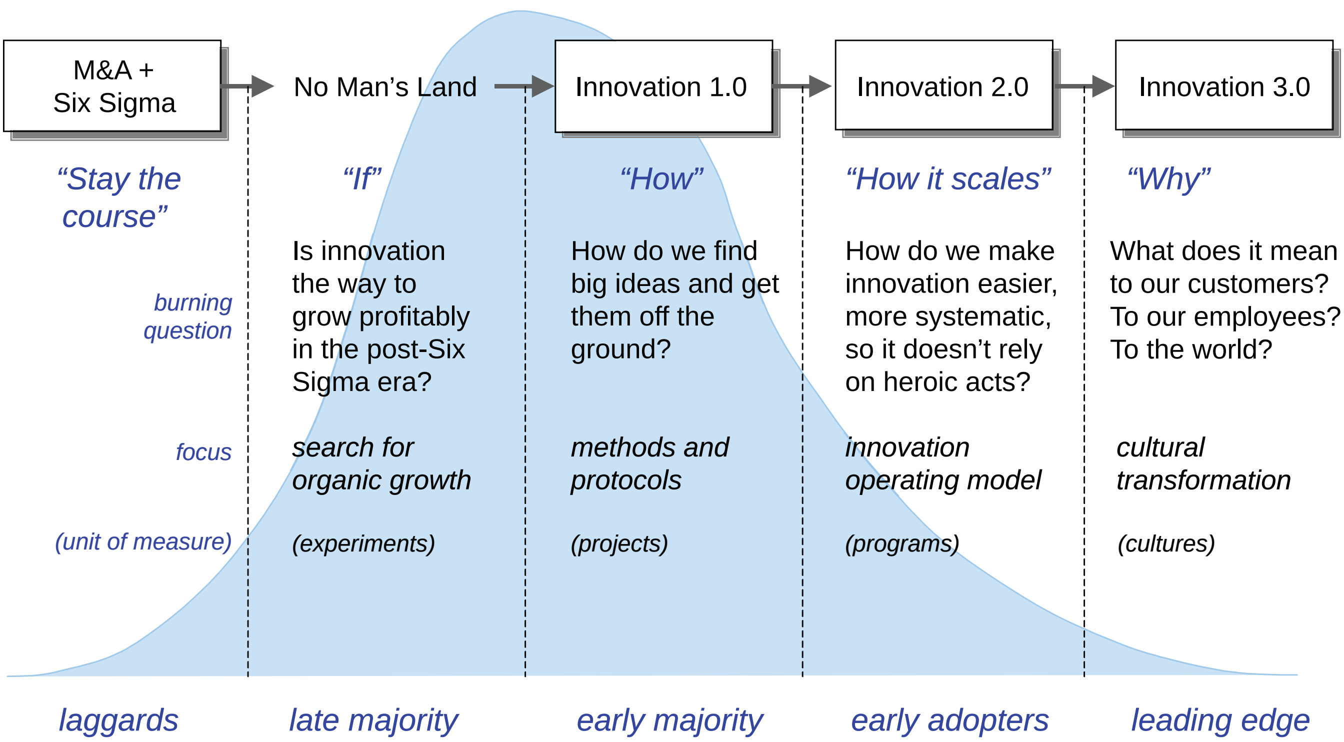


Figure 14. The Service Innovation Adoption Curve

Innovation 1.0 and Customer-Centricity

In the Innovation 1.0 phase, companies focus on individual innovation projects and learn how to do them well. Most companies become overly focused on ideas in this stage, instead of focusing on unmet customer needs and generating ideas that are responsive to those needs.

Their search for effective methods and protocols moves from stage-gate processes into a stronger focus on the front-end, where ideas are generated, vetted, and incubated.

One thing they discover is that getting service innovations to work in the market requires a lot of customer interaction. The design thinkers they began to believe in as they crossed "No Man's Land" help them get their first experiences with ethnographic research, the practice of studying customer behaviors in their natural environment. This helps them discover unarticulated customer needs, which are a far better source of innovation than mere ideas generated from multiple sources.

Once the customer-centricity lesson is embraced and companies begin innovating directly with important customers, senior leaders become highly engaged in the innovation process. Actually, about 30% of the companies in our research began with high senior leadership engagement, which is what prompted them to begin the service innovation adoption journey. In most larger organizations, innovation arises in a more organic way.

Thus, the two key lessons companies learn from the Innovation 1.0 phase are:

> *Lesson #2: Deep levels of customer-centricity are needed.*
>
> *Lesson #3: Senior leaders must engage teams in ways that inspire them and solve problems.*

We see senior leaders taking the innovation challenge personally, communicating their innovation intent, setting portfolio-level goals, and setting aside the resources (people, capital, and their own time) to meet them. The leadership style we observed in the best firms is one of inspiring people through deep curiosity (instead of certainty) and hands-on problem-solving (instead of delegation).

The Shift from Projects to Programs

Once senior leaders get engaged, they are not satisfied with a focus on *projects* anymore. The emphasis shifts to new growth platforms, and the innovation effort becomes a *program*. The lessons they embrace in the Innovation 2.0 & 3.0 phases are:

> *Lesson #4: Innovation requires an explicit operating model to define how work gets done.*
>
> *Lesson #5: Change management is needed to embed innovation in the culture.*

Only the top quarter of companies in our research demonstrated the attributes of Innovation 2.0. More than half are actively working to create the elements of Innovation 2.0, systemic innovation supported by an innovation operating model that includes:

- Strategic priorities and innovation charter
- Up-front funding (provided in stages)
- Central innovation cadre
- New growth platform exploration protocols

At Innovation 3.0, companies are intentionally developing innovation cultures. They prize storytelling and rituals. Several of the Tekes 12 exemplars have reached this stage.

The Five Lessons of the Service Innovation Journey

Figure 15 below summarizes the five lessons companies in our research have learned as they make their innovation journey:

Lesson #1: Innovation as a new, design-based discipline

Lesson #2: Customer-centricity

Lesson #3: Senior leadership engagement

Lesson #4: An explicit operating model

Lesson #5: Strong change management skills

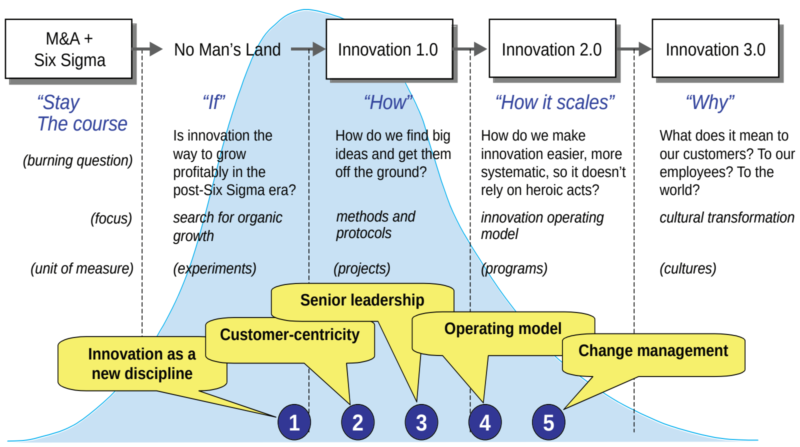


Figure 15. The Five Lessons of the Service Innovation Journey

1.5 The Meaning of "Service Design"

Service firms do not have a tradition of employing designers the way manufacturing firms do, but design skills are a critical component of the service innovation journey. *Service design* is similar to *product design* because it uses design methods to develop a new offering. However, unlike goods, services are dominated by intangible elements. Service design, therefore, focuses on bringing many intangible elements together into a cohesive customer experience. As a discipline, service design is still being established. Table 6 translates several common product design disciplines into analogous service design disciplines that are taking root in leading service companies.

Product Design Discipline	Service Design Discipline
User interaction design	Customer experience (including touchpoint) design
Physical prototyping	Conceptual prototyping
Bill of materials	Service delivery blueprint
Product platforms	IT platforms
Production planning	Service delivery training
Pricing models	Business models

Table 6. Comparison of Product Design and Service Design Disciplines

1.6 Competing in the Services-era

Peer Insight's research – including both the Tekes 12 and Peer Insight 100 studies – leads us to conclude that business success in the services-era will not be determined soley by technology or operational excellence, nor will it be determined by new ideas or creativity. Instead, success will require a discipline of service innovation characterized by:

1. Leadership that provides absolute clarity about which customer problems the firm is dedicated to solving.
2. Deep insights into unmet needs for those customers.
3. Skill at developing new customer experiences along with new ecosystems (that is, innovation networks) and business models to deliver those experiences.
4. Superb change management processes to turn unfamiliar business designs into fast-growth businesses that scale globally.

An Emerging Growth Model for the Services-era

A new model of growth through service innovation (see figure 16) may be emerging at the more proactive companies in our research. At the project level (which is where Peer Insight's research has generally been conducted) the flow of activities appears as shown in steps 1 through 4 below:

Not surprisingly, this model follows an outside-in path. It begins with a deep focus on discovering unmet customer needs (Step 1). This step is typified by field ethnographic research (applied in B2B contexts as well as in B2C.)

In Step 2 the development team sets a customer experience vision and generates potential concepts with potential to fulfill that vision. There is an important role for design-trained talent in Steps 1 and 2. Step 3 entails developing a network-based value proposition.

Note that technology does not appear as a key consideration until Step 4, once a value proposition has been established. The timing for going through Steps 1 through 3 can be as little as 30 days, and in the best examples the process includes low-fidelity prototypes and live customer feedback.

Step 4 has more complexity, since it includes:

- Information technology
- Human resource planning / innovation
- Customer Experience Management (CEM)
- Change management

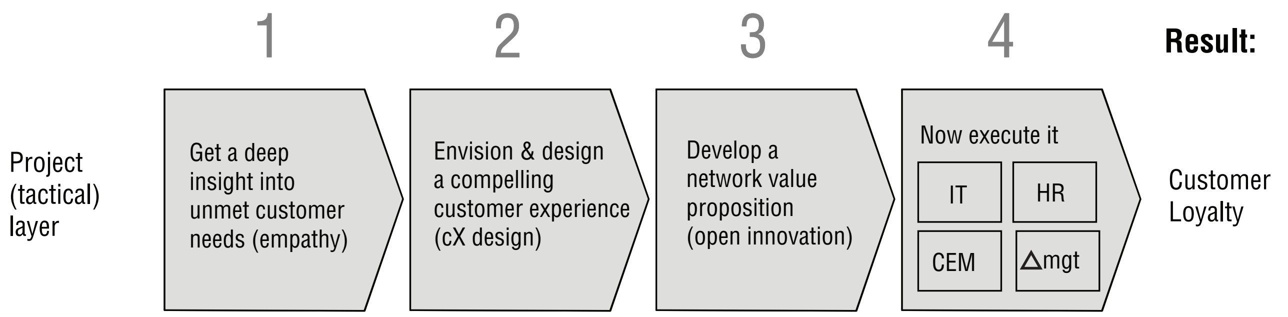


Figure 16. An Emerging Growth Model for the Services-era (1)

Adding the Program (Strategic) Layer

As noted earlier, our research was concerned with evaluating individual service innovation projects. The emerging service innovation growth model (shown on the previous page) also suggests the need for a second layer of capability, a program (or strategic) layer. The first layer, the project or tactical layer, addresses the question:

How can we do this project successfully?

The program layer answers different questions, namely:

What service innovation projects should we undertake?

Which customers do we want to serve?

How can we do all projects more successfully?

Figure 17 below shows how the program layer is different from the project layer, and it suggests new directions for the research in terms of how firms can develop the systemic capability to introduce customer-centric service innovations that scale profitably.

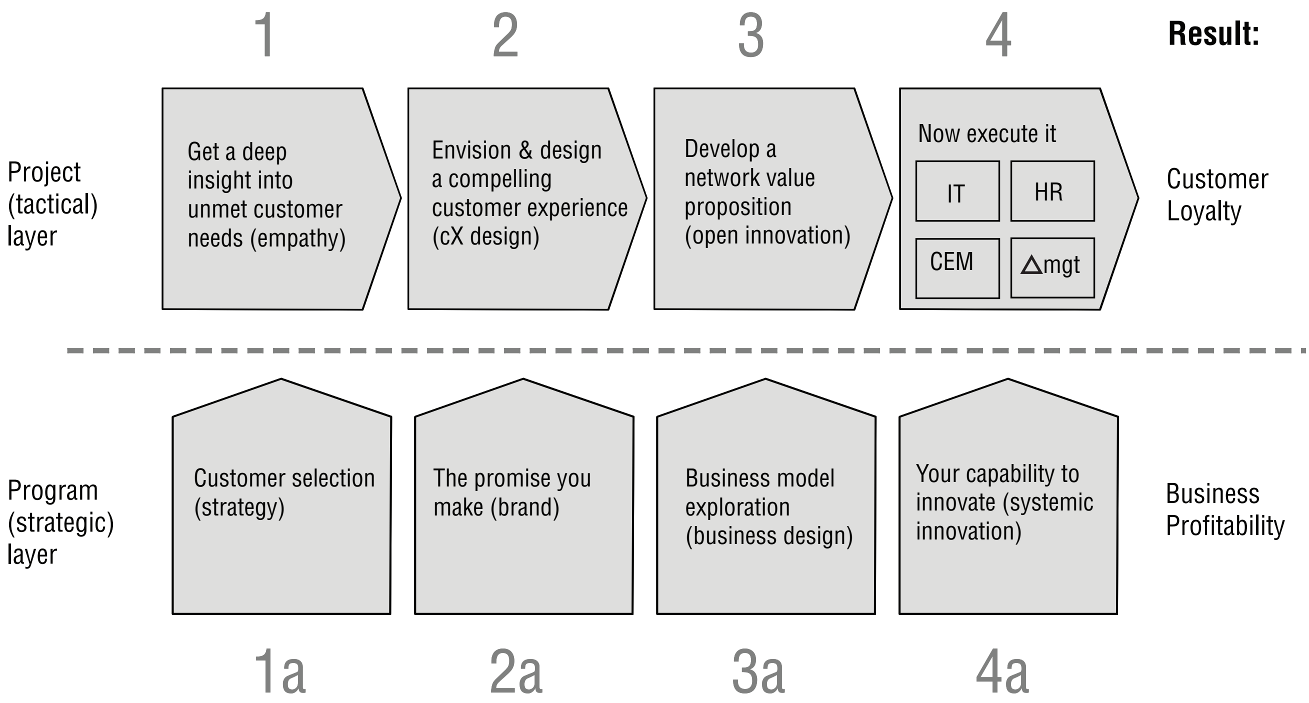


Figure 17. An Emerging Growth Model for the Services-era (2)

2 Service Innovation Case Study Exemplars

Peer Insight prepared case studies for three service innovation exemplars from four industries selected by Tekes. The **Insurance and Financial Services** industry exemplars are The Hartford, Bank of America, and MyBizHomepage. The Hartford is one of America's leading insurance, investment, and financial services providers. Bank of America is America's largest bank with 5,800 retail branches. Bank of America's innovative Keep the Change service has attracted 2.5 million participants, who have opened close to four million new bank accounts with the company. MyBizHomepage is an SME that has created a Web-based financial management dashboard for small businesses.

Crowe Chizek and Company LLC, NineSigma, and LRA Worldwide comprise the **Professional Services** exemplars. Crowe Chizek has grown into the ninth largest Certified Public Accounting/management consulting firm in the United States. The highly-innovative company has created a centralized innovation team and defined formalized corporate innovation strategies and processes. NineSigma is an SME revolutionizing the R&D and innovation strategies of leading manufacturers through its Web-based global innovation sourcing solutions. LRA Worldwide is pioneering a new field of customer experience management consulting. LRA has built a practice focused on teaching clients how to build exceptionally compelling experiences for their customers.

Ingram Micro, Sitoa, and American Girl account for the **Wholesale and Retail Trade** exemplars. Ingram Micro is the world's leading distributor of information technology products and services. Ingram Micro is diversifying from a focus on distributing boxes of information technology products to proactively creating new service offerings for clients. Sitoa created a Web-based information technology platform it calls an "e-tailing engine" that has revolutionized e-commerce by connecting product suppliers to online retailers. American Girl is one of America's top direct marketers, children's publishers, and experiential retailers. Its American Girl dolls, combining the power of story and play, have become a cultural phenomenon among young girls.

The **Logistics** industry exemplars include Total Quality Logistics (TQL), ServiceBench, and Brivo Systems. TQL is one of America's fastest-growing third party logistics companies, providing outsourced logistics services for clients. ServiceBench has built a Web-based software-as-a-service solution that manages a range of post-sales service management activities for clients. ServiceBench's mission is to digitally integrate the highly-fragmented service supply chain. Brivo Systems disrupted its industry by creating the first commercially-available service that provides remote building security and access control solutions. Table 7 presents the exemplars by number of employees, revenues, and markets.

Company and Industry	# Employees	Revenues	Markets
Insurance & Financial Services			
The Hartford	30,000	$26.5B (2006) Fortune #78	B2B & B2C
Bank of America	177,000	$84B (2005) Fortune #12	B2B & B2C
MyBizHomepage	16	NA	B2B
Professional Services			
Crowe Chizek	2,000+	$360M (2005)	B2B
NineSigma	22	NA	B2B
LRA Worldwide	115	NA	B2B
Wholesale and Retail Trade			
Ingram Micro	11,000	$28B (2005) Fortune #72	B2B2B
Sitoa	44	NA	B2B2C
American Girl	1,700	$440M (2006)	B2C
Logistics			
Total Quality Logistics	665	$350M (2006)	B2B
ServiceBench	95	NA	B2B
Brivo Systems	32	NA	B2B2B

Table 7. Exemplars by # Employees, Revenues, and Markets

Insurance and Financial Services

The emergence of an information-based economy has had implications for every industry, perhaps none more so than **insurance and financial services**. Consider the three key steps in services-era innovation that were described in the executive summary:

Step 1. Get deep insight into unmet customer needs and translate it into a unique customer experience;

Step 2. Develop a business model that shifts the boundaries of which parties perform what tasks in the value chain; and

Step 3. Design an information technology-driven delivery capability so it scales profitably.

In the past decade, companies in the insurance and financial services sector have developed sophisticated IT capabilities. But this reliance on IT systems can come at the expense of Step 1 and Step 2 above.

The three case studies in this section describe how firms can address the first two key steps in the innovation process so that their IT investment results in successful service innovations.

The firms we researched include the two large global companies, **Bank of America** and **The Hartford**, as well as the smallest firm in the research, **MyBizHomepage**, with its 16 employees.

The success keys revealed in this section include:

- Creating a centralized source of customer exploration;
- Performing ethnographic research to discover unmet customer needs; and
- Enrolling partners in the value chain.

Insurance & Financial Services	Read This Case Study If You Would Like to:
The Hartford	• Learn how a corporation steeped in tradition and stability adapts to innovation and change. • Learn how a large company implemented a Venture Innovation Model. • Learn how an insurance business innovates the customer experience.
Bank of America	• Learn how to use ethnographic research techniques which can reveal a customer's unmet needs and lead directly to breakthrough innovation. • Learn how to prototype and concept test a service offering. • Learn how to apply experiential marketing concepts.
MyBizHomepage	• Learn how to create a services business model that monetizes the value of information as it accumulates over time. • Learn about a financial services tool that helps small businesses better manage their financial performance. • Learn philosophies that inspire an innovative culture in a small business.

Table 8. Lessons Learned from Insurance and Financial Services Case Studies

Professional Services

While **professional services** may seem similar to financial services and insurance on the surface, they are fundamentally different from an innovation standpoint. The competitive strategies that work for insurance and financial services depend upon creating *economies of scale*, while most professional services depend upon a high degree of customization for each client.

Innovation models within professional services, therefore, are less centralized and more entrepreneurial, regardless of the size of the enterprise. One could say that professional services markets are more “high-touch” whereas insurance and financial services are more “high-tech.”

That said, several of the professional services exemplars are designing software-based solutions and bringing them to market with new business models that complement their traditional consulting services.

Creating distinctive customer experiences is absolutely essential for professional service firms. This section of the report presents three case studies that each highlight ways to use (a) expert delivery people and (b) leading-edge IT capabilities to provide highly differentiated customer experiences that are unique to each account.

The firms we researched all serve business-to-business markets. They range in size from **NineSigma**, with 22 employees, to the 2,000 person firm **Crowe Chizek**, but all three, including **LRA Worldwide**, reflect a high degree of entrepreneurial leadership that drives their approach to service innovation.

Professional Services	Read This Case Study If You Would Like to:
Crowe Chizek	• Learn how to create a centralized innovation team within a professional services firm. • Learn how a company identifies, trains, empowers, and mentors its innovators. • Learn specific techniques of “co-creating” a service offering in collaboration with your client.
NineSigma	• Learn how to embrace the concept of Open Innovation and expand the reach of your company’s global innovation network. • Learn how a company leveraged the Internet to create a “two-sided market” between corporate innovators and third-party solution providers.
LRA Worldwide	• Learn cutting-edge techniques for developing customer experiences for your clients. • Learn how progressive companies, of all sizes, align their organizational structures and resources in service of the customer experience. • Learn new customer experience metrics to apply in your business.

Table 9. Lessons Learned from Professional Services Case Studies

Wholesale and Retail Trade

The dominant business story of the past decade is the advent of the commercial Internet. Of the four industries analyzed in this report, both **wholesale and retail trade** and **logistics** have been profoundly affected by the emergence of the Internet. Amazon.com became a retailer without a physical store, and eBay went even further by popularizing the "many-to-many" shopping experience. Finally, most consumer advertising has moved from print media to the Internet, with sites such as Google becoming better able to pinpoint advertising to more narrowly defined audiences.

The Internet has made it possible for sellers with niche offerings to find buyers with niche tastes, without regard to geography. At the same time, the demand for goods has decreased while the demand for services and experiences has increased.

Many firms in the wholesale and retail trade sector have found their traditional business model becoming obsolete even as new opportunities emerge. The successful firm must develop a business strategy that leverages the amazing global reach of the Internet while also finding creative ways to increase customer engagement and loyalty.

The firms we researched exemplify this dynamic change. As the world's largest distributor of IT products and services, **Ingram Micro** has been a beneficiary of the Internet revolution while also needing to adapt quickly. **Sitoa** has built an innovative information technology platform that revolutionized online retail. The example of **American Girl** shows how a company built its brand through a compelling in-store retail experience, and then used Internet and media channels to leverage its brand.

Wholesale and Retail Trade	Read This Case Study If You Would Like to:
Ingram Micro	• Learn how to adapt to an increasingly-commoditized business by creating value-added service offerings. • Learn how to build communities around your product and service offerings. • Learn how to craft a value chain where your company provides services that enable your clients to better serve their customers.
Sitoa	• Learn how a company changed the face of web commerce. • Learn how to develop a bi-directional supply chain. • Learn how to become the informational glue in a fragmented supply chain.
American Girl	• Learn concepts of "experiential marketing" and create an extraordinarily compelling customer experience. • Learn how to connect in-store, Web-direct, publishing, and entertainment/media channels in the service of a unified customer experience.

Table 10. Lessons Learned from Wholesale and Retail Trade Case Studies

Logistics

One might think logistics would be an industry less affected by the Internet. After all, **logistics** is about moving physical goods, and the Internet cannot do that.

Yet the trend in logistics over the past 30 years has been greater precision enabled by a richer and faster flow of information. The Internet did not create this trend, but it certainly has *accelerated* it.

As manufacturing supply chain management became a global science, logistics providers discovered new growth opportunities. By the mid-1990s, Gulfstream, a manufacturer of corporate jets, began getting its Rolls Royce aircraft engines delivered by jet on the same day they were to be installed.

Today, firms design and optimize their information supply chain in the same way they optimized their supply chain for physical goods in the 1990s. Firms that compete in the logistics sector have to address information supply needs just as well as material supply needs.

One of the most amazing case examples for this formula is **Total Quality Logistics**, a transportation logistics company which is profiled in this section. Their meteoric growth shows how much opportunity still exists in many supposedly saturated markets. Another interesting case is **ServiceBench**, which integrates the information infrastructure to help clients manage post-sales service commitments. Finally, we describe the case of **Brivo Systems**, which set out to enable the last-mile of e-commerce and adapted its technology to become the dominant provider of Internet-enabled building access control.

Logistics	Read This Case Study If You Would Like to:
Total Quality Logistics	• Learn how to change the basis of competition in an established industry. • Learn how to differentiate your business based on exceptional customer service. • Learn how to rapidly scale a service business.
ServiceBench	• Learn about consolidating a fragmented industry with an integrated Web offering. • Learn the latest about how companies are integrating the post-sale service supply chain. • Learn about an SME's approach to going international.
Brivo Systems	• Learn how to create a software-as-a-service business model. • Learn how to realign a struggling organization to address a new market opportunity. • Learn how to wholesale a service – not just a product – offering.

Table 11. Lessons Learned from Logistics Case Studies

2.1 Findings from Service Innovation Case Studies

2.1.1 Organizational prerequisites for successful service innovation

The case study research revealed the following organizational prerequisites for successful service innovation:

- A commonly-shared language and vocabulary for innovation. (Several research exemplars noted what a substantial improvement it was just to agree upon and consistently use terminology like platforms, storyboards, prototypes, etc.)
- An "innovation culture" that nurtures an environment of experimentation and creativity.
- Strong senior leadership commitment to innovation.
- An environment where management leads by example and demonstrates that failure is acceptable so long as: 1) The same mistakes are not made twice and 2) The company is failing fast to succeed sooner. The organization must not automatically punish failure, but create a framework in which experimentation can happen, with the understanding that not every experiment will be successful. The best companies have an attitude that failure gets the firm one step closer to ultimate success.
- Organizational skill at concurrent service design. As with the principle of concurrent engineering, this refers to an organization's ability to enroll multiple departments and teams in building a service innovation simultaneously, or "concurrently."
- Strong communication between business units so that service innovation launches can occur with speed and efficiency and without unanticipated complications.
- Organizations must prize diversity for successful innovation. This diversity features teams with individuals representing not just different departments, but also teams comprised of individuals with different skill sets, genders, ages, and even ethnic compositions.
- Resources – in terms of people and money – aligned in support of the innovation agenda.
- Personnel management strategies aligned with the company's innovation agenda. This includes, where appropriate, contribution to innovation as part of both an employee's performance evaluation and the employee's compensation or incentive structure.
- As the research program skewed to smaller enterprises, there was less evidence of formal innovation training programs. However, several of the exemplars, particularly in the Professional Services category, featured well-organized innovation training programs. Senior executives and business line managers were the most common recipients of innovation training.
- Several exemplars recognized a need to be very 'choiceful' in terms of the clients and projects they accepted. They recognized that their clients had to be engaged and committed to the relationship at a senior level, else the innovation ran a far higher risk of failure, potentially leading to negative publicity for the company.
- The exemplars also demonstrated an ability to flexibly adapt in response to changes in their market or industry. For example, Brivo Systems shifted from selling the *SmartBox* to selling remote security solutions, and Ingram Micro is shifting from moving boxes of computer products for a fee to developing value-added services for their resellers.

2.1.2 Methods used in service innovation at US companies

Methods used in service innovation by research exemplars included:

- Skills at and a commitment to rapidly prototyping the new service concept, and a willingness to readily adjust it based on initial customer feedback about how it could be designed to better address their needs.

- Employ individuals specifically trained with design skills. (This includes graphic designers, service designers, industrial designers, ethnographers, etc.)

- Using designers to illustrate visually, through storyboards or prototypes, what elements and features the fully-built service solution will provide, without having to build the entire service or solution up front.

- Empowering innovation through storytelling and community. "Storytelling" refers to the use of narrative techniques that engage us emotionally and help place innovation in a human context. In 1961, U.S. President John F. Kennedy used storytelling to establish the U.S. space program when he expressed a vision "to send a man to the moon and bring him safely back within 10 years." "Community" refers to the creation of social structures (either live or virtual) to help evolve and disseminate innovation. Conferences, communities of practice, wikis and blogs are all examples of community structures.

- Using ethnographic research techniques that "passively observe" clients in service settings (while they shop, as they talk on cell phones, as they wait in doctor's offices), in order to look for clues and patterns in how individuals behave, organize, or socialize.

  This point entails going beyond relying on what customers say in focus groups, surveys, or interviews (each of which should still be performed however) to gaining insights from how people actually act and behave.

- Defining an affordable loss for innovation experiments. One of the Fortune 500 exemplars had a test of, "If this experiment fails, will it kill the company?" If the answer was no, senior management was willing to proceed with the innovative concept.

2.1.3 Challenges – and solutions – in developing and providing services to foreign markets

The case studies revealed the following challenges in providing services to foreign markets:

- Language barriers and cultural differences.

- Becoming familiar with different regulatory regimes and standards.

- Not recognizing that foreign countries often have multiple official languages.

- Mistaken belief that individuals in English-speaking countries will behave, think, or act similarly to Americans. The Hartford experienced this challenge. It expected to win rapid uptake in England for a financial services product introduced to much acclaim in the United States. But market acceptance came much slower than anticipated in the United Kingdom, and the company learned it cannot assume similarities between the two cultures. Today, the Hartford deploys a London-based team to accumulate specific insights about the needs of English consumers.

- Inability to understand differing business styles between countries. Underneath the obvious differences of culture and language between countries lies a subtler difference, one pertaining to the style of how business itself is conducted. European business relationships are generally understood as more collaborative affairs that prize an attitude of consensus and mutual risk-sharing and risk-taking. American firms tend to have less developed skills at partnership and risk-sharing, which often means it takes them longer to create a strong foundation of relationships in the new country.

- Attracting and retaining employees overseas is often significantly more difficult because foreign employees may not respond to the same incentives as American employees.

The case studies revealed the following responses to the challenge of providing services to foreign markets.

- When expanding operations in a foreign country, hire its citizens (hire locally) as often as possible.

- Partner with leading in-country service providers when expanding operations internationally.

- Compose innovation teams with individuals representing the company's different global regions.

3 Insurance and Financial Services

company	company profile
The Hartford	• 78th on the 2006 Fortune 100 • The Hartford is one of America's leading insurance and investment companies. • 2006 Revenues: $26.5B • 2006 Income: $2.75B • 30,000 employees • www.thehartford.com • Hartford, Connecticut
Bank of America	• America's largest retail bank by number of branches, second by assets under management. • 12th on the 2006 Fortune 100 • *Keep the Change* program a smash hit that has led to customers opening some three million new savings accounts in the past two years. • Winner of the Product Development Management Association's 2006 Innovator of the Year Award (for *Keep the Change.)* • www.bankofamerica.com • Charlotte, North Carolina
MyBizHomepage	• A free, web-based service that provides easy-to-use financial analytics that help small and emerging businesses run more smoothly and profitably. • U.S. Small Business Administration recommends solution to small business owners. • 16 employees • www.mybizhomepage.com • Middleburg, Virginia

3.1 Insurance and Financial Services: The Hartford

Company	The Hartford	Read this if you want to learn:
Headquartered	Hartford, Connecticut	• How a corporation steeped in tradition and stability adapts to innovation and change. • How a large company implemented a Venture Innovation Model. • How an insurance business innovates the customer experience.
Industry	Financial Services	
Company profile	Large Cap, B2C and B2B	
Revenues	$26.5B (2006)	
# Employees	30,000	
Year Founded	1810	
Nature of Service Innovation	Information Processing	

Company Profile

The Hartford is one of the United States' largest insurance and investment companies. With nearly 30,000 employees and $2.75 billion of income in 2006, The Hartford ranked 78th on the 2006 Fortune 100 list. The Hartford consists of two major divisions: 1) Life, Retirement, and Investments and 2) Property & Casualty Insurance. The Hartford Property & Casualty Group itself is divided into two divisions *Commercial Lines (Business Insurance)* and *Personal Lines (Consumer Home and Auto Insurance.)*

The Hartford's *Personal Lines* Division shared their story of innovation, including the development of a *Venture Innovation Model* at the Hartford and the creation of a new auto insurance service called *Dimensions.*

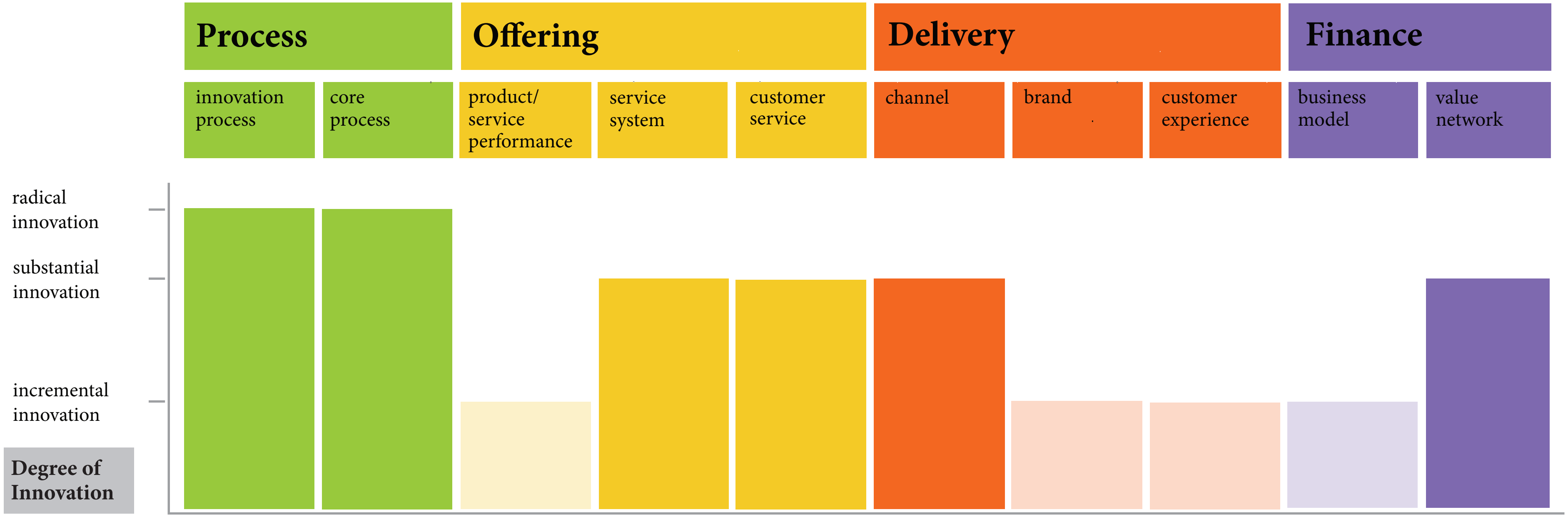
Like many companies, The Hartford has just in the past several years begun to place serious emphasis on creating structures, processes, and an organizational culture that supports sustainable service innovation. Specifically, The Hartford has: 1) Created a centralized *Hartford Ventures* group responsible for driving significant innovation within the company, 2) Created a "culture of innovation" that drives responsibility for innovation and creative thinking through all levels of the company, and 3) Begun to place intense focus on their customer's experience.

Innovation Challenges in the US Insurance Industry

- Over the last century, when an insurance company in the United States created a new insurance policy or offering, it has been required to ***publicly file*** that insurance policy/offering with state insurance agencies. Any competitor could (and still can) easily review the insurance policy on file with the state insurance commission and "reverse engineer" the innovation by mimicking what its competitors created. In effect, the U.S. insurance regulatory framework created a real disincentive for innovation in the U.S. insurance industry.
- Because of this, market share in the U.S. insurance industry historically shifted only ever-so-slightly between established competitors, often not more than three or four percentage points in a given year.
- However, recent U.S. Supreme Court decisions have decreed that business methods and models can now be patented. This has driven a wave of intense competition – and innovation – across the U.S. insurance industry, as competitors vie to be the first to innovate and receive intellectual property protections for new financial services or insurance offerings.
- The rise of the Internet has also heightened competition in the insurance industry, opening new channels and new cost structures for competitors to market home and auto insurance policies directly to consuzmers over the Web.
- The insurance industry itself highlights a core contradiction about service innovation. Service companies desire to establish sustainable, repeatable processes in order to deliver services as efficiently, accurately, and cost-effectively as possible. But innovation is inescapably connected with change, and introducing change in complex service environments is often difficult for large companies to handle.
- The Hartford's Property & Casualty Division, split between its *Commercial Lines* and *Personal Lines* businesses, faced difficulty in conceptualizing, creating, and scaling innovations that leveraged the full power of the company to bring new insurance and financial services to the marketplace.

Response to Innovation Challenges, and Organizational Innovation, at The Hartford

Kevin LaCroix, AVP Hartford Ventures, shared some of the steps the company has taken to respond to these innovation challenges:



innovation process	core process	product/ service performance	service system	customer service	channel	brand	customer experience	business model	value network
Created *Hartford Ventures* group to drive innovation through acquisitions, external partnerships, and/or the development of new strategies.	Most of The Hartford's service innovations focus on enhancing internal core processes of how insurance services are delivered.	Less of The Hartford's innovation efforts went to enhancing the performance of the company's insurance services themselves.	With initiatives like Cross-Sell, which seeks to get customers to purchase both their home and auto insurance policies from The Hartford, the company does a good job of leveraging its platforms.	The Hartford recently implemented a new Spanish-speaking customer care team.	Hartford's *Dimensions* and *Quote to Issue* initiatives have strengthened relationships with independent insurance agents, it's key distribu-tion channel.	The Hartford's brand, which messages stability and assurance, is not currently a point of innovation.	The Hartford's success with its *Dimensions* initiative shows the power of customer experience innovation. The Hartford is looking to apply those concepts to future innova-tions.	Limited exploration of alternative business models.	Through an exclusive relationship, AARP makes The Hartford's *Personal Lines* insurance services available to AARP's 38 million members.

Table 12. Ten Types of Innovation Analysis: The Hartford

- In early 2001, the company created *Hartford Ventures*, a team which exists outside the mainstream business and is responsible for facilitating significant innovations within the company through acquisitions, external partnerships, and/or the development of new strategies.

- More recently, The Hartford created additional, complimentary centers of innovation, including the Innovation Lab within IT, the Emerging Issues group within the mainstream business, Legal staff dedicated to IP and Patent innovation, and a head of innovation strategy for Personal Insurance.

- These teams, including *Hartford Ventures*, form an Innovation Network within The Hartford. To facilitate this, an Innovation Council has been established to place a wide variety of issues which transcend corporate silos into the hands of a specific team. (Note that business unit managers do retain responsibility for incremental or sustaining innovation within their specific lines of business.)

- Through *Hartford Ventures*, the company has created a funding source for innovation exploration at a central level within the company, providing a means of funding innovative projects which otherwise would be difficult to justify in a traditional annual budgeting process.

- The *Ventures* team's mission is to "Learn, share, and connect." The group coordinates The Hartford's ***open innovation*** activities, which increase the company's innovation efficiency and effectiveness by bringing external innovation resources into the company.

- Two new metrics were created to measure the success of the *Hartford Ventures* team: 1) The group must identify a certain NPV $ amount of innovation opportunities each year, and 2) A certain NPV $ amount of innovation initiatives must be "approved" by management each year. (NPV stands for "Net Present Value".)

- The Hartford has set up innovation rooms – called "Transporter Rooms" – throughout the company. Though more psychological than anything else, meetings in these rooms are meant to symbolize and foster a spirit of openness, creativity, and innovation.

In summary, The *Hartford Ventures* team, working with Hartford's Innovation Network, is responsible for driving ***substantial*** and ***disruptive*** innovation at The Hartford. However, much ***incremental innovation*** occurs at the operating unit level. For example, the Hartford *Personal Lines* division had great success in 2004 implementing a Spanish-Speaking Customer Care Team within its customer support call center. The initiative enabled The Hartford to attract customers from the rapidly growing Hispanic demographic in the United States.

A Case Study of Innovation at The Hartford: Hartford Dimensions

The Hartford's *Personal Lines* division does not sell auto insurance directly to consumers; rather, it makes its insurance policies available for sell through 4,000 independent insurance agents throughout the United States. The Hartford designed its *Dimensions Auto Plan* as a very attractive auto insurance offering for independent insurance agents to recommend to their retail customers. The Hartford designed *Dimensions* mindful that it had to appeal to two stakeholders in its value chain: the independent agents and their retail consumers.

With *Dimensions*, The Hartford set out to enhance the customer experience of auto insurance policy holders by addressing a major irritant: the fact that, traditionally, their auto insurance rates could change due to circumstances beyond their control. For example, historically in the US auto insurance industry, spouses were made to pay higher insurance rates based on their partner's accidents.

The Hartford's *Dimensions* insurance policy makes auto insurance more reflective of each individual driver's risk factors by applying interactive rating factors to individual drivers to produce a pinpoint rate for each driver. In effect, *Dimensions* is designed to respond to a driver's changing needs throughout his or her life. When *Dimensions* customers turn 65, their auto insurance rates do not automatically skyrocket to reflect the rates of 65-75 year olds. Rather, they pay the rates for an average 65 year old (man or woman) who shares a similar driving record.

Because the *Dimensions* plan uses more than 10 times the typical number of insurance scores, The Hartford is able to more effectively price the risk of insuring their customers, and can pinpoint customized rates for specific customers. Customers have responded incredibly positively to the *Dimensions* plan, appreciating that just because they have a birthday, their insurance rates do not suddenly increase that afternoon. "The *Dimensions* program has been a resounding success," said Jonathan Bennett, SVP Hartford Personal Lines. Numbers tell the story. The month after The Hartford introduced the service in June 2003, requests for The Hartford auto insurance quotes increased 270% – and the number of policies closed and issued increased 250%.

3.2 Insurance and Financial Services: Bank of America

<table>
<tr><th>Company</th><th>Bank of America</th><th>Read this if you want to learn:</th></tr>
<tr><td>Headquartered</td><td>Charlotte, North Carolina</td><td rowspan="6">• How to use ethnographic research techniques which can reveal your customer’s unmet needs and lead directly to breakthrough innovation.
• How to prototype and concept test a service offering.
• How to apply experiential marketing concepts.</td></tr>
<tr><td>Industry</td><td>Financial Services</td></tr>
<tr><td>Company profile</td><td>Large Cap, B2C/B2B</td></tr>
<tr><td>Revenues</td><td>$83.9B (2005)</td></tr>
<tr><td># Employees</td><td>177,000</td></tr>
<tr><td>Year Founded</td><td>1884</td></tr>
<tr><td>Nature of Service Innovation</td><td>Information Processing</td><td></td></tr>
</table>

Company Profile

Bank of America operates America’s largest network of bank branches, with 5,800 locations covering over thirty states, and is the United States’ second largest bank measured by assets (behind only Citigroup.) Given its already substantial market penetration, growth in Bank of America’s consumer banking business began to stagnate in the mid- to early 1990s. During those years, the average savings rate of American households briefly dipped into negative territory, the lowest household savings rate in the United States since the Great Depression. Moreover, Bank of America ran up against a regulatory barrier: a federal law prohibiting banks from surpassing 10% of domestic deposits through acquisitions. With Bank of America’s purchase of Fleet Boston bank in 2004, the company came to control 9% of domestic deposits.

Bank of America would have to expand through organic growth. The company needed a breakthrough idea to reinvigorate its consumer banking business by encouraging customers to open new bank accounts. In October 2005, the company introduced a radically new service that reshaped consumer banking in the United States. It called the program *Keep the Change.*

Innovative Service Concept

With its Keep the Change service, Bank of America rounds the amount of each purchase a customer makes with their Bank of America Visa debit (or “checking”) card to the next dollar, and automatically transfers the difference to the customer’s savings account. For example, if lunch costs $6.25, Bank of America rounds up the purchase to an even $7.00 and transfers $.75 to the customer’s Bank of America savings account. As an added incentive to participate, Bank of America matches 5% of the annual total a customer accrues in their savings account through Keep the Change, up to a maximum of $250 per year. The service has been a smash hit. Since October 2005 alone, 2.5 million customers have signed up for Keep the Change, and Bank of America has added 800,000 new checking accounts and over 3 million new savings accounts. Thus far, the retention rate for participating customers exceeds 99%. In October 2006, Bank of America became the first financial services company to win PDMA’s (the Product Development Management Association’s) prestigious “Corporate Innovator of the Year” award for Keep the Change.

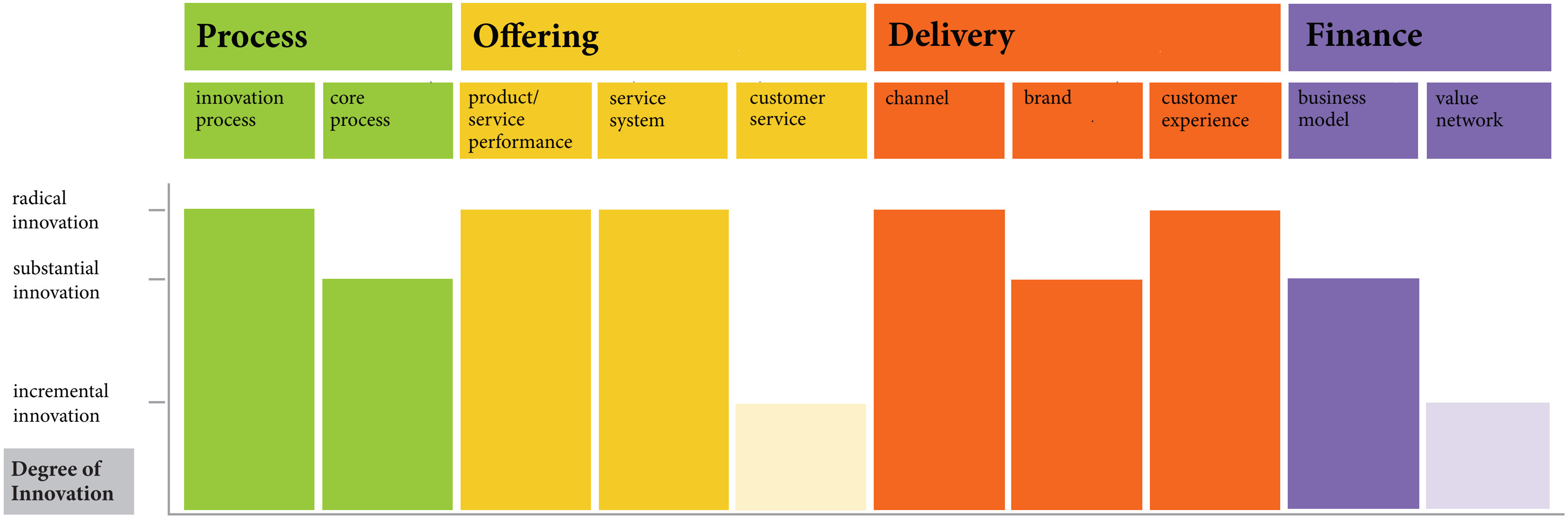
Using Ethnographic Research to Discover Unmet Customer Needs

Bank of America’s insight for Keep the Change began as it conducted “ethnographic research” on a specific consumer segment: boomer-age women (45+) with children. Bank of America wanted to discover how to get this consumer segment to open more checking and savings accounts. Ethnographic research means ***observational research*** that puts researchers “into the field”, or, “directly into the lives” of consumers. The intent of ethnographic research is to discover behaviors, actions, or needs that a consumer might never vocalize in a focus group or survey, but that become apparent as one observes their behavior. For Keep the Change, Bank of America invested two months observing a dozen families. Researchers watched people at their homes as they paid and balanced their checkbooks, and tagged along as moms shopped at retail stores, dined out, and made deposits or withdrawals from their bank.

Ray Chinn, Bank of America’s Senior VP for New Product Innovation, said two concepts emerged from the research. First, they witnessed many people already rounding their checkbook entries to the nearest dollar for convenience reasons. They also encountered many boomer women who just could not save, whether because they could not afford it or because they had difficulty controlling their impulse buying.

Prototyping and Concept Testing

In the summer of 2004, Chinn convened a team of product managers, finance experts, IT personnel (software engineers), and operations staff and held twenty brainstorming sessions. The team’s brainstorming sessions generated 80



innovation process	core process	product/service performance	service system	customer service	channel	brand	customer experience	business model	value network
Bank of America used ethnographic research to reveal unmet customer needs and then prototyped and concept tested the service through online surveys and focus groups.	Bank of America developed internal processes to align marketing, IT, innovation, and operations teams in support of the initiative.	Keep the Change rounds the amount of each purchase to the next dollar, and puts the difference in the customer's savings account. Bank of America matches up to $250 of the funds that the service transfers to the customer's savings account.	Keep the Change service applies only to purchases customers make with their Bank of America debit card. The service drives use of debit cards and increases assets deposited in Bank of America savings accounts that the company can profitably lend.	Service requires little customer support.	Bank of America reports 2.5 million customers have signed up for Keep the Change. Since its launch, Bank of America has opened 800,000 new checking accounts and 3 million new savings accounts.	Effective use of experiential marketing techniques.	Keep the Change is a radically unique customer experience in the US consumer banking industry.	With Keep the Change, Bank of America doesn't invent a new business model; rather, it executes its current one incredibly effectively with well over 3 million new accounts opened.	Not an area of focus for this innovation.

Table 13. Ten Types of Innovation Analysis: Bank of America

banking concepts, which were then reduced to 12, but the overwhelming favorite remained the concept of rounding up consumer's financial transactions and transferring the difference to savings.

Next – to test the concept (called ***concept testing***) – the team created a Web-based cartoon that showed a woman buying a cup of coffee in a store for $1.50, and then displayed rounding the purchase up to $2.00 and placing 50 cents into a savings account. They tested the conceptual cartoon in an online survey of 1,600 consumers, and the concept won phenomenal reviews for its uniqueness. Said one customer, "I think it's brilliant. It tells me this bank is thinking about my needs from my point of view. It's no longer a giant bank housing my money. It's a financial partner helping me figure out how to save more."

Notice how Bank of America's consumer research began with small numbers of ethnographic interviewees to surface unmet needs, and then expanded to test the concept with larger numbers of individuals through surveys. Though focus groups should never be the only method of collecting customer insight, Bank of America had good success with them, as the service's name, "Keep the Change," was actually suggested by a focus group participant. By December 2004, this positive early customer feedback encouraged senior management to give the program approval for full development.

Business Model and Service System

Keep the Change does not represent a new business model for Bank of America, rather it executes the current business model rather effectively. The initiative does represent a service platform. It increases assets under management in Bank of America savings accounts that can be profitably lent. Also, it drives usage of Bank of America's debit card products. As Bank of America operates businesses that collect fees from merchants from processing debit and credit card transactions, this drives incremental revenues to those businesses as well, as merchants incur more fees from the increased frequency of debit card transactions driven by the program.

Marketing

Bank of America knew it needed a big splash in selling Keep the Change to the public, so it chose to use an ***experiential marketing*** approach. A focus group participant had suggested getting people to dig for change in the cushions of a couch. Bank of America took the idea and ran with it, creating a custom-made, 20-foot-long red velvet couch guaranteed to attract attention (figure 18.)

The day Keep the Change launched, October 5, 2006, Bank of America staged a marketing event-cum-press conference in New York City's Grand Central Terminal. Staff dragged the mega-couch into the station, stuffed it with coins, and invited people to look for change. The bank sent replicas of the sofa to malls in Boston, Dallas, Los Angeles, and Miami, and co-sponsored events with the National Football League.

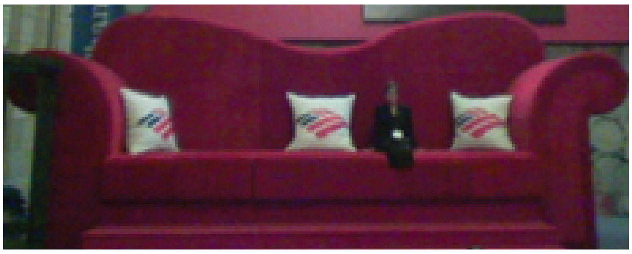


Figure 18. Bank of America's Keep the Change Red Velvet Couch

A Start, Not an End

For Bank of America's innovation team, led by Jim Burnick, SVP Innovation & Product Excellence, Keep the Change has been a phenomenal success from both a customer adoption and a speed to market perspective. Indeed, Bank of America's impressive speed to market with Keep the Change was approximately fifteen months: six months in concept development (July to December 2004) and nine months in development (January to October 2005.)

Yet the initiative represents only a starting point. While extraordinarily successful, the program has resonated less strongly with higher net worth clients, for whom the additional savings (often not exceeding $1,000/year) is negligible. Moreover, the success of the initiative has elevated future expectations for Burnick's group. Burnick recognizes that his team's challenge going forward lies in achieving repeatable service innovation success. A difficult charter, but Bank of America's commitment to using innovation techniques that put customer needs up front gives it a head start on the future.

3.3 Insurance and Financial Services: MyBizHomepage

Company	MyBizHomepage	Read this if you want to learn:
Headquartered	Middleburg, Virginia	• How to create a services business model that monetizes the value of information as it accumulates over time. • About a financial services tool that helps small businesses better manage their financial performance. • Philosophies that inspire an innovative culture in a small business.
Industry	Financial Services	
Company profile	SME, B2B	
# Employees	16	
Year Founded	2006	
Nature of Service Innovation	Information Processing	

Company Profile

CEO Peter Justen founded MyBizHomepage in 2006 with a vision to help small business owners manage their finances more effectively. Justen, a serial entrepreneur, has started more than 20 businesses in his thirty year career in industries ranging from finance, to technology, to mortgage banking. With MyBizHomepage, Justen saw an opportunity to provide financial services to the vastly underserved U.S. SME marketplace. The U.S. SME market consists of over 25 million businesses (compared to 15,000 publicly-traded companies) which account for 68% of U.S. employment and 50% of non-farm GDP. As in most countries, SME businesses form the backbone of economic output and employment in the United States.

Justen was troubled by statistics showing that 64% of small businesses that shut down *close despite the fact that they were profitable when they went out of business,* often times just not profitable enough. Justen recognized that small business owners were often overwhelmed simply managing the day-to-day operations of their business, and that a ***Web-based financial management dashboard*** could help owners make sounder business decisions by visually displaying the company's financial performance and updating it in real time.

A Valuable Service for Small Business Owners

Justen's vision became MyBizHomepage, a free, web-based service that provides easy to use financial analytics that help small and emerging businesses run more smoothly and profitably. Key financial information is extracted directly from QuickBooks and presented graphically on a desktop dashboard. The dashboard displays graphs and charts depicting five critical balance sheet elements for small businesses: sales, receivables, cash on hand, payables, and costs of goods sold.

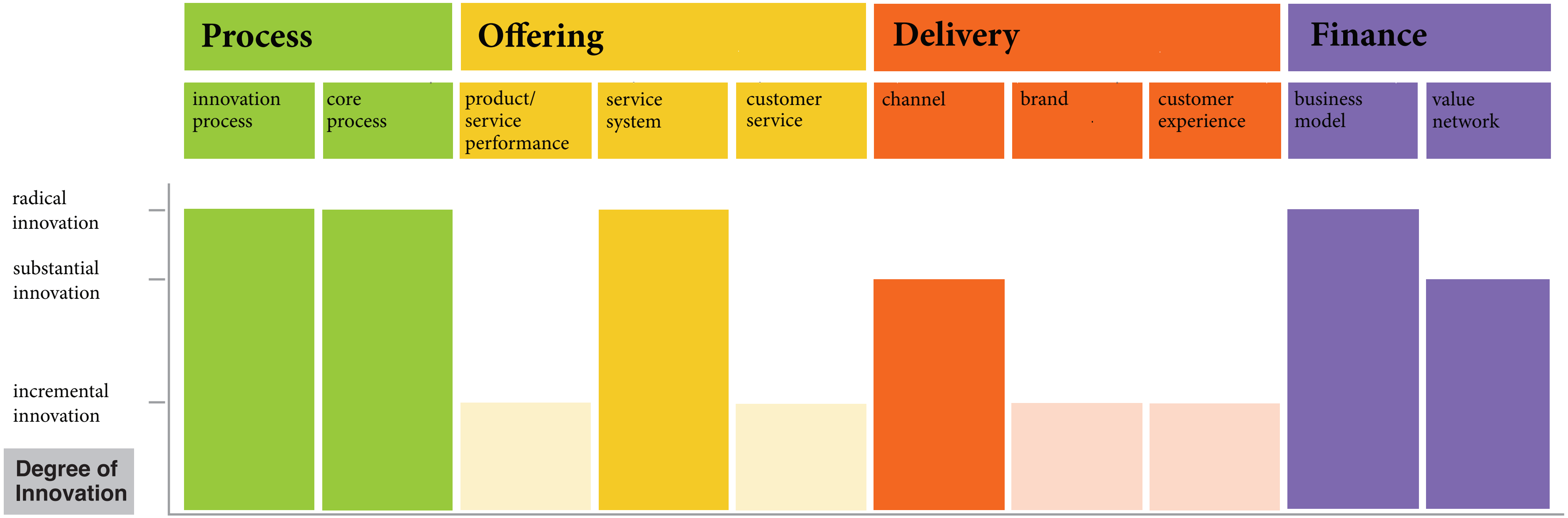
While buried in QuickBooks' software lies the ability to create similar charts, the MyBizHomepage service is different because it ***automatically and dynamically, in real time***, updates the charts and graphs showing the company's financial performance each time a user logs onto the MyBizHomepage website. In fact, that is why Justen named the company "MyBizHomepage", to encourage users to set the website as the default homepage for their Internet browser, so that they can see the company's financial performance updated in real time throughout the day. CEO Justen notes that his company's best customers use the service *seven times a day.*

Small business owners using the service note that the analytic reports MyBizHomepage generates have helped them establish and enhance their credibility with banks and lenders by demonstrating that they have a strong handle on their company's finances. The system further gives small business owners the ability to set alerts when certain financial thresholds are met. For example, MyBizHomepage can send email alerts when a minimum threshold of working capital is reached.

Driving Market Adoption of the Service

MyBizHomepage provides its financial management dashboard service free of charge, generating revenues from targeted advertising to the customers who make the company's website their home page. Whereas MyBizHomePage's competitors, including *QuickBooksOnline* and *SmartOnline*, charge a monthly subscription fee for a similar service, MyBizHomepage's decision to give customers the same service for free has enabled it to win rapid and widespread market adoption.

As the service is free, the U.S. Small Business Administration has made it prominently available on their website as a support tool for all small businesses in the U.S. Seeing the value the MyBizHomepage service brings to many of their small business clients, a number of U.S. financial institutions focused on credit lending to the SME market have approached the company about making the service available to their clients. In response, MyBizHomepage has signed a number of private label distribution agreements allowing these financial institutions to make the service available to clients through their corporate websites.



innovation process	core process	product/service performance	service system	customer service	channel	brand	customer experience	business model	value network
MyBizHomepage cultivates an innovation culture that allows "freedom from failure and freedom from fear." The company promotes contrarian thinking that asks "Why not?" instead of "Why?"	MyBizHomepage service extracts a company's financial data from QuickBooks and presents it as a visually-compelling online financial management dashboard.	The service MyBizHomepage provides is not ground-breaking (in fact, it actually exists in QuickBooks.) What is different is that the company's software neatly organizes and presents financial data through an integrated dashboard.	As MyBizHomepage collects data on each customer, it builds a database of small companies through which it can provide: 1) targeted marketing, 2) benchmarking services, and 3) statistical reports.	Service requires limited customer support.	By electing to provide its financial dashboard management service for free, MyBizHomepage has cut multiple private label distribution agreements that have rapidly spread the use of the service.	CEO Justen named the company "MyBizHome-page" to reinforce that customers should make the site the "home page" on their browser.	MyBizHomepage provides a well-conceived experience. It is working to make installation procedures easier.	As its user base grows, the company can provide targeted online advertise-ments to businesses. Long term, its accumulating database of small company information can be monetized by providing benchmarking services or selling accumulated market data.	The U.S. SBA "Small Business Administration" has made the MyBizHomepage service available through its website for all U.S. small businesses.

Table 14. Ten Types of Innovation Analysis: MyBizHomepage

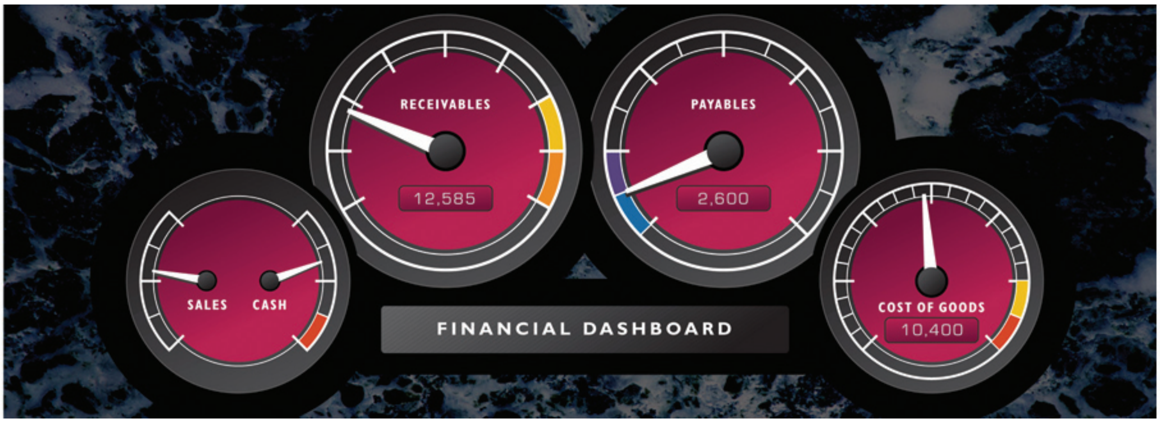


Figure 19. MyBizHomepage dashboard prototype, Ferrari design

A Unique Business Model

Winning widespread adoption is critical because the power of MyBizHomepage's value proposition is realized when the service reaches a critical mass of users. First, the company both increases its user base and can segment it more efficiently, giving advertisers the ability to much more effectively target market their products and services to MyBizHomepage customers (enabling MyBizHomepage to raise its advertising fees). MyBizHomepage thus becomes a small business portal, aggregating large numbers of small businesses to create an efficient marketing channel for third-party advertisers.

When a customer signs up for the service, MyBizHomepage collects demographic information about the company, including its location and industry. This accumulating database of information on U.S. small businesses gives MyBizHomepage the ability to create and sell highly-demanded statistical reports on the U.S. small business market, broken down by industry and regional categories.

Moreover, the accumulating data set enables MyBizHomepage to create benchmarking reports that can compare the performance of small businesses within industries and/or regions. For example, once the company has a critical mass of tax consultants using the service, it can generate benchmarking reports that compare the financial performance of one tax consultancy to aggregated data about the financial performance of the other fifteen similar businesses operating in the region.

The service thus can help small business owners: 1) understand if and why they are underperforming (or outperforming) their peers, and 2) understand the comparative performance of their business operations if they span across different geographical regions. Long term, MyBizHomepage has crafted a business model that can monetize the value of information as it increases exponentially because the service is being given away for free, and promoted through viral marketing. It is a "doing well by doing good" approach that creates a win-win relationship for customer and company.

MyBizHomepage's Innovative Culture

With twenty ventures to his credit, Justen has honed an ability to turn a service concept into a profitable business. The common theme of Justen's ventures has been a strategy of driving efficiencies to large and inefficient markets – whether in the U.S. mortgage industry, construction business, or SME marketplace. Justen emphasizes the essential importance of ***prototyping***, whether of one's business model, service concept, customer experience journey, or actual web pages (figure 20.) In fact, Justen literally modeled MyBizHomepage's financial dashboard as if it were a vehicle dashboard, and gives customers the opportunity to choose between three thematic views: Ferrari, Prowler, and G9 Cooper (figure 19). Said Justen, "Customers told us that's how they wanted to see their financial data – just like on the dashboard in their cars – so we kept it simple, and gave them what they asked for."

MyBizHomepage places extreme emphasis on cultivating an innovative culture centered around contrarian thinking that asks "Why Not?" instead of "Prove to Me Why?" MyBizHomepage takes pains to build an environment that provides "freedom from failure and freedom from fear" and empowers all employees to ask questions. Noting that the one mistake entrepreneurs cannot fix is lost time, Justen cultivates at MyBizHomepage, "a culture of action steps…of doing something, of moving forward, even if you do not get it exactly right on the first attempt."

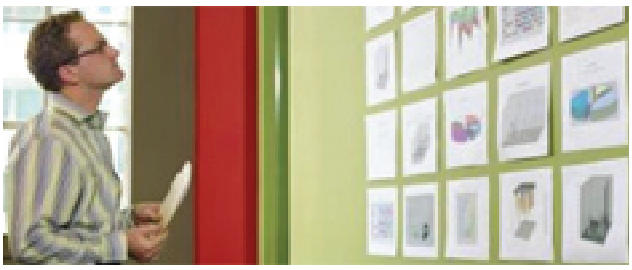


Figure 20. Justen prototyping the MyBizHomepage website

4 Professional Services

company	company profile
Crowe Chizek	• Top 10 US consulting and public accounting firm. • Identified as a “Best of the Best” company in its industry by INSIDE Public Accounting magazine. • $360M revenues in 2005 • 2,000+ employees • www.crowechizek.com • South Bend, Indiana
NineSigma	• Revolutionizing the R&D and innovation strategies of leading manufacturers through its Web-based global innovation sourcing solutions. • Connects clients to global innovation networks. • Instrumental in evolution of P&G’s “Connect and Develop” innovation strategy. • 22 employees • www.ninesigma.com • Cleveland, Ohio
LRA Worldwide	• Leader in design and development of Customer Experience Management strategies. • Establishing an entirely new field of customer experience management consulting. • 115 employees • www.lraworldwide.com • Horsham, Pennsylvania

4.1 Professional Services: Crowe Chizek and Company LLC

Company	Crowe Chizek and Company LLC	Read this if you want to learn:
Headquartered	South Bend, Indiana	• How to create a centralized innovation team within a professional services firm. • How a company identifies, trains, empowers, and mentors its innovators. • Specific techniques of "co-creating" a service offering in collaboration with your client.
Industry	Professional Services	
Company profile	Mid-Cap, B2B, Private	
Revenues	$360M (2006)	
# Employees	2,000+	
Year Founded	1942	
Nature of Service Innovation	Information Processing	

Company Profile

Under its core purpose of "Building Value with Values®," Crowe Chizek and Company LLC (**www.crowechizek.com**) provides innovative business solutions in the areas of assurance, benefit plan services, financial advisory, forensic services, performance services, risk consulting and tax consulting. Crowe Chizek, a Crowe Group LLP entity, was founded in 1942. One of the top 10 public accounting and consulting firms in the United States, Crowe also serves clients worldwide as a leading independent member of the Horwath International global professional services organization.

During the past half-century, as the business environment grew more complex and client needs expanded, Crowe recognized the opportunity to develop a consulting group in conjunction with its original practice. Today, Crowe has the fourth largest management consulting practice among professional accounting firms in the United States, and one of the nation's fastest growing accounting and auditing practices, which posted revenue growth of 49% in 2005.

Crowe aligns itself along industry verticals such as financial institutions, healthcare, and retail dealerships. This ***matrix organizational structure*** overlays functional practice areas with focused industry expertise, creating specialists within the firm who possess deep insight into specific challenges and business trends faced by clients. Crowe's specialists create value for clients by identifying areas of complexity in their workflows and developing innovative solutions to address them.

Structural Model of Innovation at Crowe Chizek

As a partnership-based professional services firm, Crowe Chizek has developed a very sophisticated structural model of innovation. Crowe's innovation strategy has four major components:

1. Leadership Focus (*Value Creation Committee*)
2. People (*Solution Creators*)
3. Processes and systems for managing innovation
4. Collaboration and Co-Creation

Crowe recognizes the critical importance that focused senior leadership plays in driving innovation across the organization. Crowe's *Value Creation Committee* includes veteran innovators from across Crowe's practice groups and industry verticals. The *Committee* represents a source of seed funding and mentorship for promising service innovation concepts developed by Crowe *Solution Creators*. A percentage of firm revenues dedicated to innovation as internal venture capital funds the group's activities.

Crowe's *Value Creation Committee* assesses the development of new services and products and manages the company's innovation pipeline. The *Committee* works with Crowe Chizek's business units to identify potential innovation gaps in the company's portfolio, ensuring that the company's practice areas have sufficient innovations in their pipeline to match their anticipated contribution to firm revenue up to four years in the future.

Crowe Chizek recognizes that its most precious assets are the self-driven innovators, or "*Solution Creators*", in the company. Crowe makes it a point of competitive advantage to identify, retain, mentor, and empower its *Solution Creators*. Crowe has developed a formal training and development program for its *Solution Creators*, and encourages them to receive New Product Development professional certification. Further, Crowe defines a specific career path for its *Solution Creators*, supports them with a peer network internally, and has developed a sponsorship, or "mentorship", program to develop emerging *Solution Creators*.

Process		Offering			Delivery			Finance	
innovation process	core process	product/ service performance	service system	customer service	channel	brand	customer experience	business model	value network

innovation process	core process	product/ service performance	service system	customer service	channel	brand	customer experience	business model	value network
Crowe identifies innovative "*Solution Creators*" in the company, nurtures them with training in Crowe's innovation process, and makes seed funding available to develop their innovative concepts.	Crowe Chizek continually looks for opportunites to enhance its already strong client service delivery model.	Crowe's modular products and services are more customizable and provide better real-time visibility than comparable offerings.	Crowe has done a strong job of developing cross-functional, multi-market platform solutions which balance the reach of its software-based solutions with the agility of its consultants.	Important to Crowe, but no specific innovations of note.	Crowe mostly delivers its services through its people; however, it is starting to deliver services through software platforms.	Crowe is managing change to align the brand closer with its mission of "Building Value with Values®"	Crowe is starting to put in place customer journey mapping techniques.	Crowe comple-ments its traditional consulting model with software-based solutions, introducing a new business model that scales to reach a wider number of clients.	Crowe does an excellent job of applying Open Innovation principles, co-creating solutions with clients and enrolling technology partners to help build client solutions as needed.

Table 15. Ten Types of Innovation Analysis: Crowe Chizek and Company LLC

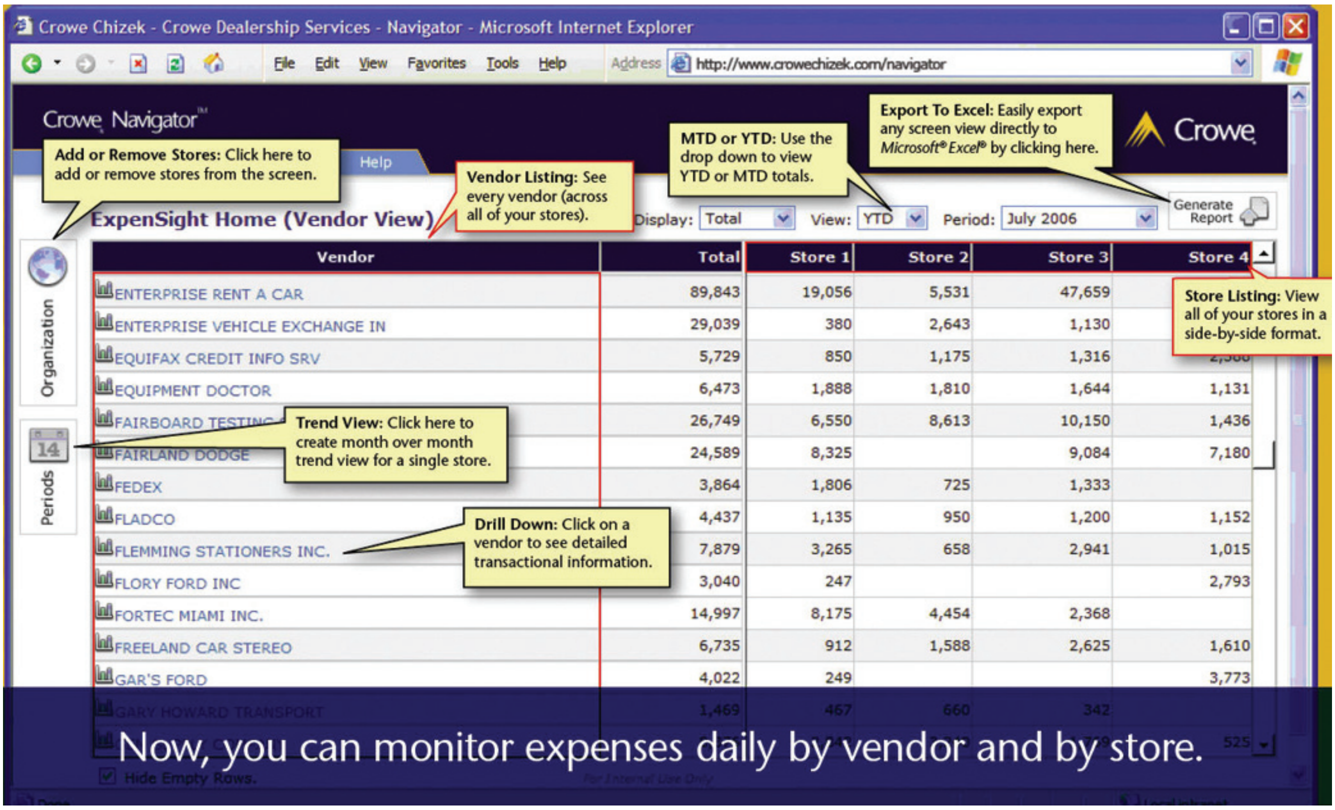


Figure 21. The Crowe Navigator for Dealers Solution

The third component of Crowe's innovation strategy is a well-defined Innovation Development and Portfolio Management Process. Crowe's *Value Creation Committee* has served an invaluable role in standardizing and spreading Crowe's innovation process throughout the company. By establishing a common language, or "vocabulary", of innovation across the organization, it has fostered an environment in which innovation can thrive. Crowe's innovation strategy also calls attention to the importance of Open Innovation. Crowe recognizes the importance of both co-creating solutions with clients and enrolling external partners where necessary to complement Crowe's existing core competencies in the development and delivery of services and solutions demanded by clients.

Finally, Crowe ensures that the importance the firm places on innovation is declared openly and expressed in the company's: 1) core purpose statement, 2) declaration of services, and 3) as part of its business case for diversity. Crowe's core purpose statement is "Building Value with Values®," and the firm declares that it, "has high expectations for the significance, creative excellence and value of what we build." Crowe's business case for diversity holds that, "A diverse workforce enhances the creativity that supports innovation."

Innovation in Action at Crowe – Crowe Navigator and Revenue Cycle Analytics Innovations

Crowe's consulting group creates customized consulting solutions that help clients improve their processes as an added service to auditing and risk management. In some cases, Crowe develops application software to support these services, which positions the company to achieve economies of scale by reducing reliance on consultants to deliver value. This approach allows Crowe to provide high-value solutions that foster engagement and build strong relationships with a larger number of clients.

Although Crowe embraces technology as a way to stay innovative in its service delivery, Crowe's philosophy maintains that solving business problems requires a combination of experienced people, effective application of technology, and a deep understanding of business processes and best practices. So while technology skills are important, they are not sufficient to ensure success. By focusing on cross-functional platform solutions, Crowe strives to balance the power of software applications with the agility of its consultants.

Crowe's Navigator for Dealers solution (figure 21), ***a web-based software-as-a-service*** performance management tool for auto dealerships, is a recent example of the firm's success

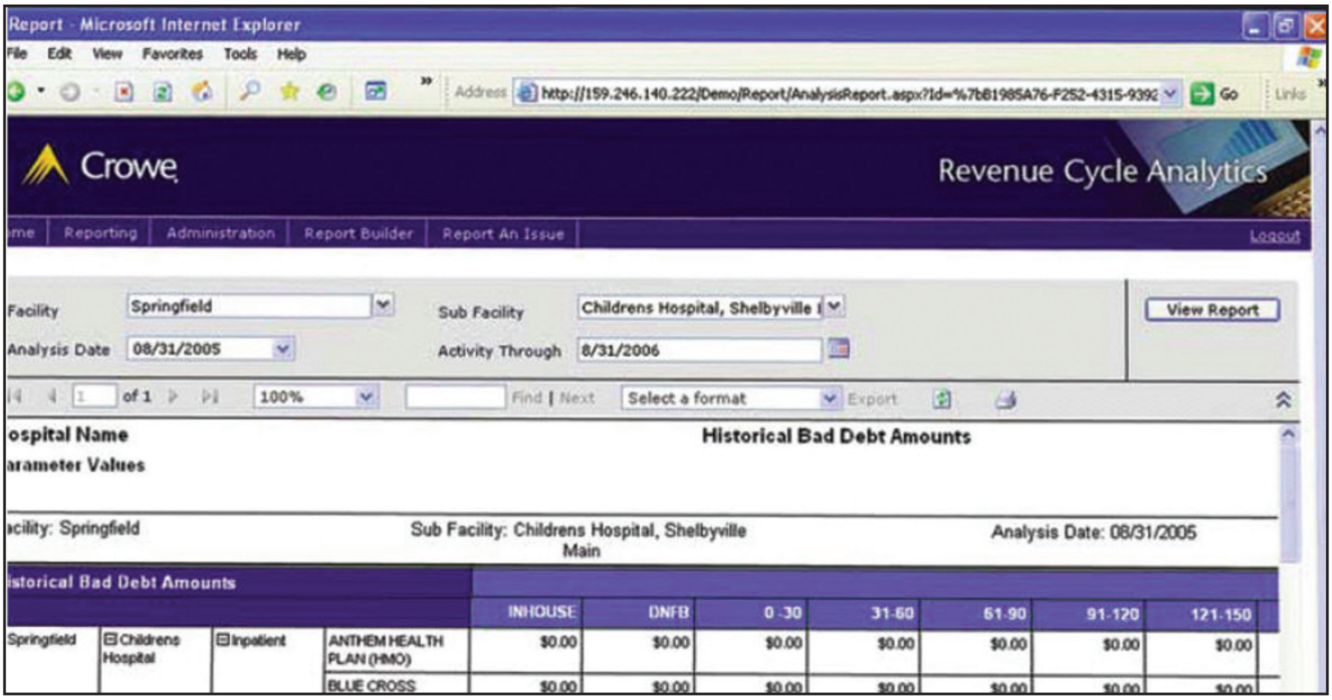


Figure 22. Crowe Revenue Cycle Analytics Solution for Healthcare Organizations

in combining technology and service. Faced with mountains of data and poor information management systems, owners of automobile dealerships are forced to spend many hours each month compiling information about their business in a way that facilitates analysis and comparisons of the financial performance of the various automobile stores they operate.

Crowe's Navigator solution enhances a dealer's ability to monitor performance, manage risk, and measure progress by extracting data from each specific dealer management system and standardizing the data to generate a side-by-side comparison of each store with trend visibility and conditional alerts. This highly innovative solution exemplifies one way Crowe has been able to blend service innovation with technology innovation.

The *Crowe Revenue Cycle Analytics* (RCA) offering (figure 22) is another performance management solution. It gives healthcare organizations a real time view of their financial performance. The RCA solution helps healthcare organizations improve their operating performance, optimize their revenue cycles, and enhance patient satisfaction. While it is delivered as a software product, RCA represents a service innovation for Crowe, as the software component allows Crowe to establish a relationship with healthcare organizations, giving it the opportunity to consult with the client to recommend process and workflow improvements.

Notably, Crowe co-created the Revenue Cycle Analytics solution directly with a lead client. The highly successful relationship led to a breakthrough software solution. Nevertheless, Crowe learned valuable lessons as it co-created the solution with its client, including:

- The importance of setting expectations about the relationship up-front with the client, especially that Crowe intended to turn the solution into a software product.
- Make no assumptions about terminology. Ensure that the language of innovation – e.g. "prototype", "proof of concept", "business requirement" – means the same thing to both parties.
- Likewise, ensure that the subject matter ("the data definition") is commonly understood by both parties – e.g. "revenue recognition", "privacy notification", etc.
- While speed to market is important, the step of building a prototype must never be sacrificed in the interest of speed.
- When estimating project timelines, be mindful of whether "best fit" resources are being used to develop timeframes.

4.2 Professional Services: NineSigma

Company	NineSigma	Read this if you want to learn:
Headquartered	Cleveland, Ohio	• How to embrace the concept of Open Innovation and expand the reach of your company's global innovation network. • How a company leveraged the Internet to create a "two-sided market" between corporate innovators and third-party solution providers.
Industry	Professional Services	
Company profile	SME, B2B	
# Employees	22	
Year Founded	2000	
Nature of Service Innovation	Information Processing	

Company Profile

NineSigma's mission is to revolutionize the practice of R&D outsourcing in commercial markets, as shown in figure 23. Through its ***Web-based*** Managed Exchange (M:X™) service, NineSigma connects Innovation Seekers at Fortune 500 companies who have a technical innovation challenge with a global network of Solutions Providers who have technologies, products, or services that can address the specific need of the client. NineSigma helps clients craft a non-confidential request for proposal (RFP) which it then distributes to relevant companies in its Solution Provider database via the online Managed Exchange service. NineSigma connects the matching solution providers with its clients, then steps aside to let the client and solution provider arrange a contract, license agreement, joint venture, or exchange of intellectual property as the parties see fit.

NineSigma's service stands at the forefront of the Open Innovation movement, driving an era of just-in-time innovation that helps clients find ***unobvious sources of solutions*** to their innovation challenges through a global innovation network. NineSigma connects clients to a global network of universities and unique government, private, and corporate research laboratories with specific technical and scientific expertise to which innovation managers would not otherwise be exposed. For example, NineSigma connected a consumer packaged goods client with Atheris Laboratories, the world's foremost

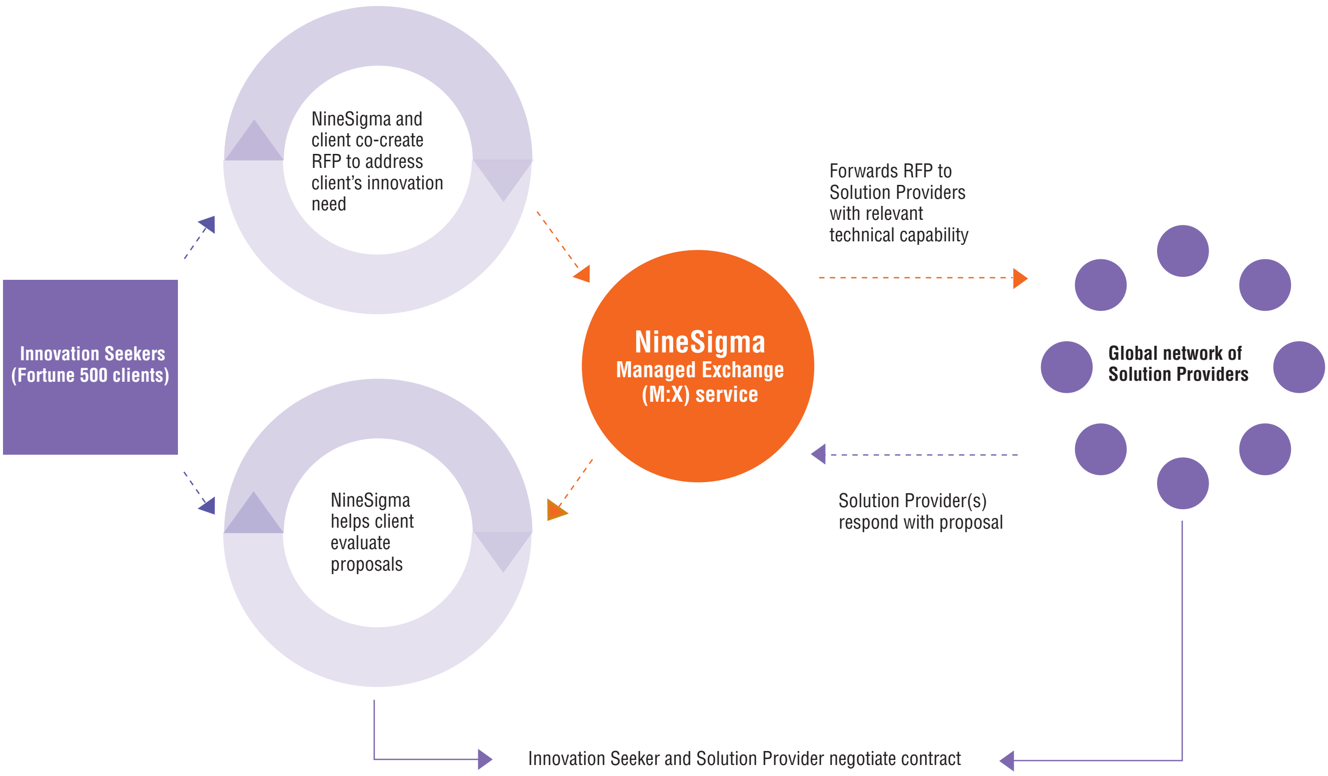
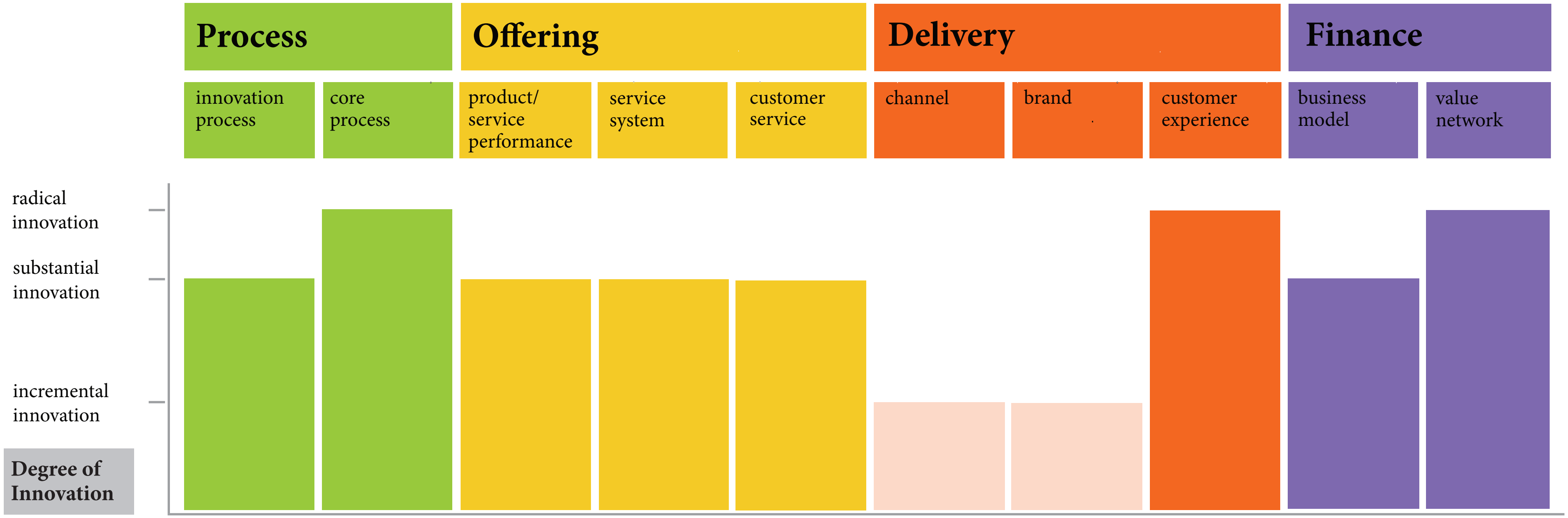


Figure 23. Schematic of NineSigma's Value Proposition



Process: innovation process	Process: core process	Offering: product/ service performance	Offering: service system	Offering: customer service	Delivery: channel	Delivery: brand	Delivery: customer experience	Finance: business model	Finance: value network
NineSigma implemented an internal service development process it uses to evaluate market potential of new service offerings.	Embracing the concept of Open Innovation, Nine Sigma's process provides a radically new way for corporations to source innovation externally through NineSigma's global network of solution providers.	In contrast to competitors, which tend to post RFPs directly to the Internet, NineSigma proactively assists clients in writing their RFPs, increasing the likelihood of finding solution providers that can best address the client's specific need.	By catalyzing a cultural shift in its clients to help them embrace an Open Innovation approach, NineSigma achieves a high degree of client retention and repeat business.	By hiring employees with advanced science degrees and years of experience in their client's industries, NineSigma intimately understands client needs. It works closely with clients to craft RFPs and help evaluate responding solution providers.	NineSigma's international expansion strategy focuses on cultivating foreign partnerships, particularly in Japan and Europe.	Less a focus of innovation for NineSigma.	NineSigma enrolls corporate innovators in the Open Innovation revolution, exposing them to a world of unobvious innovation sources that previously lay just beyond their reach.	NineSigma leveraged the Internet to create a new business model that brokers relationships between Innovation Seekers and Solution Providers.	NineSigma's Innovation Alliance Program grows the database of solution providers by compensating them for forwarding RFPs to others in their network.

Table 16. Ten Types of Innovation Analysis: NineSigma

Figure 24. List of RFPs posted on NineSigma's homepage

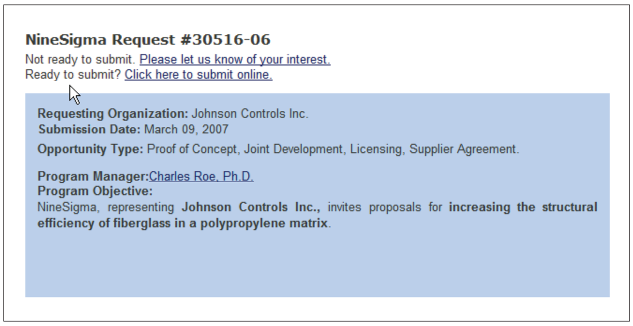


Figure 25. Details of an RFP posted on NineSigma's website

expert in animal venoms (poisons) in Geneva, Switzerland. Atheris introduced the client to new bioactive molecules from venomous animals that proved incredibly useful to the client's innovation initiative.

A Response to Technology Trends

Inspired by a model used by U.S. federal agencies to distribute R&D grants to researchers, NineSigma grew as a result of several forces changing the landscape of R&D around 2000-2001. The internet became a much more adapted, established technology, and the globalization of this technology allowed researchers in countries such as India, China and Russia to participate in global innovation networks. Paralleling the .com boom, the world saw the blooming of an entrepreneurial spirit among academics. These academics, aided by increased government funding for their university technology labs, were eager to start new businesses and commercialize their innovations.

Internet-Based, Yet Still A People Business

Though NineSigma began with the insight to leverage the Internet to facilitate connections between corporate innovators and solution providers, the company quickly discovered that much of the value it provides clients lies in helping them craft effective RFPs. The company's employees play a critical role in the RFP-writing stage by helping clients clearly articulate what technology or solution they need. As Charles Brez, VP of Innovation Alliances for NineSigma commented, "A problem well-described for our clients is a problem half solved."

To provide that level of service, NineSigma hires highly-skilled individuals, generally employing PhDs with at least ten years experience in their client's industries. As Shauna Brummet, NineSigma's VP of Program Management, observed, "Our biggest competitive advantage is our ability to attract superior talent that understands our client's innovation challenges." Armed with both technical and industrial knowledge, NineSigma's employees are able to turn the client's vision into a technical problem statement. By playing this proactive role, NineSigma better understands the client's need, translates it into scientific language, and helps clients attract the best solution providers.

To connect client RFPs with solution providers, NineSigma first scans its database of solution providers and forwards the RFP to solution providers with relevant technical capabilities or ones that have responded to similar RFPs in the past. In addition to communicating the RFP to its network of solution providers, NineSigma also initiates a proactive search for relevant expertise on every RFP initiated by its clients. (That is, it also looks beyond its current solution provider database to identify other companies, individuals, or entities who could meet their client's needs.) The vast majority of clients' RFPs are filled on this personally-brokered basis by NineSigma. However, NineSigma will also post open RFPs directly on its website (figures 24 and 25), providing another channel for solution providers worldwide to learn about RFP opportunities.

Scaling the Business

NineSigma knew it possessed a compelling business model, but also recognized it faced a dual challenge of winning adoption from Innovation Seekers and also expanding its network of Solution Providers. NineSigma had to design its business to be compelling for both stakeholders. To attract solution providers, the company developed a Global Innovation Alliance strategy featuring a *Reach and Reward* program. The program enrolls *NineSigma Affiliates* in countries such as Brazil, Israel, and India, and compensates them for distributing client RFPs through their own local networks. The initiative has proven crucial in achieving deep penetration of solutions providers worldwide.

The publication of Henry Chesbrough's book Open Innovation, which advises companies to look beyond their own innovation capabilities and to enroll external partners in their innovation strategies, proved a turning point for NineSigma. As VP of Innovation Alliance Brez noted, "Open Innova-

tion became a movement and we became a technique for it." NineSigma could now place its ***service offering*** in the context of a formal ***innovation strategy.***

These events spawned a period of rapid growth for NineSigma, introducing new challenges of developing efficient systems to deal with large volumes of clients and projects, integrating new employees, commercializing its existing knowledge, and managing its ever-growing global knowledge network. As it grew, NineSigma recognized the need to be choiceful about the client engagements it accepts. As NineSigma CEO Paul Stiros commented, "We work with companies whose senior leadership believes in new methods of solving innovation challenges. We work very closely with them to learn what keeps them up at night, and work hard to bring novel, innovative solutions to address those needs."

Facilitating a Cultural Shift

Adopting the Open Innovation approach implicit in NineSigma's service offering often requires companies to overcome a "not-invented-here" philosophy. NineSigma commonly helps clients with the change management aspects of innovation, replacing a not-invented-here mindset with a belief in the power of open innovation. NineSigma helps clients adjust their internal metrics to recognize their scientists for bringing forward innovative technologies and solutions, regardless of whether they were invented in-house or not.

This change is perhaps best seen at companies like Procter & Gamble, whose new "Connect and Develop" strategy mandates that at least 50% of the company's innovations come from outside of the company. Dupont and Kraft Foods are also exemplars in this way, with Kraft adopting a mantra called PFE, or "Proudly Found Elsewhere". As CEO Stiros observed, "The most successful thing P&G did was to redefine how they measure the success of their researchers. I am constantly surprised to see the quality of knowledge found all over the world. The most sophisticated innovators take pride in the rediscovery of knowledge that is already available and apply it effectively in conjunction with their own intellectual property to speed time to market for their innovations."

4.3 Professional Services: LRA Worldwide

Company	LRA Worldwide	Read this if you want to learn:
Headquartered	Horsham, Pennsylvania	• Cutting-edge techniques for developing customer experiences for your clients. • How progressive companies, of all sizes, align their organizational structures and resources in service of the customer experience. • New customer experience metrics to apply in your business.
Industry	Professional Services	
Company profile	SME, B2B	
# Employees	115	
Year Founded	1980	
Nature of Service Innovation	People and Information Processing	

Company Profile

LRA Worldwide is a leading consulting, organizational development, and research company that specializes in the emerging field of ***Customer Experience Management*** (or "CEM"). LRA provides clients with processes and methods they can use to design and implement exceptionally compelling customer experiences. LRA's core industry focus is the U.S. hospitality industry, but it also serves entertainment, sports, financial services, healthcare, and retail clients worldwide. LRA's featured clients include Starwood Hotels, the NBA (National Basketball Association), and Hard Rock Hotels and Casinos.

LRA sees its core mission as helping clients transform their customers from satisfied users, to loyal customers, and eventually into proactive advocates for the company. As one of the first companies to focus specifically on innovating customer experiences, LRA has played a leading role in driving the customer experience revolution.

Customer Experience Management

Every time a company and a customer interact, the customer learns something about the company that will either strengthen or weaken their future relationship, and that customer's desire to return, spend more, and recommend the company to others. Customer Experience Management techniques identify each of these ***moments of truth*** and ensure that the company and its people, products, processes, and culture are aligned both strategically and tactically across ***all touch points*** to best serve the customer.

LRA's service concept is unique because it helps clients address an integrated problem – creating well-conceived customer experiences – that is difficult to solve because of the siloed or functional organizational structures used in most companies. In effect, LRA helps clients "operationalize their brand," – meaning that they help clients turn their ***brand promises*** into ***operational realities.*** LRA works with clients to evaluate each step in their customer's experience with the company, in order to identify gaps where experiences do not adequately meet customer needs, or fail to meet the company's stated brand promise.

Using an ***empathic approach***, LRA helps clients move from viewing their customer's experiences as a series of ***"transactions"*** to treating them as a series of ***"emotions"***. This better positions clients to map the "white space" (that is, opportunities for innovation) within their service offerings. LRA shifts a client's perspective from thinking about the 100 identical transactions they perform each day, to seeing that – from the perspective of the customer – there is but one transaction: his or her own.

A CEM Methodology

LRA has built a formalized CEM methodology (figure 26, page 48) it uses to help clients assess, design, implement, and sustain optimal customer experiences. LRA's methodology has four components:

Experience Assessment – Assess the current customer experience.

Experience Design – Design and document the optimal customer experience.

Experience Implementation – Develop and apply tools/activities to effect organizational change.

Experience Measurement – Rigorously measure performance and link to rewards and recognition.

For example, LRA conducts ***customer experience audits*** for clients like Starwood Hotels, auditing specific hotels to ensure that each meets the company's brand standards – from the status of the facilities, to the warmth of the staff, to the quality of the food. Notes John Roberto, Senior Vice President of LRA's Quality Assurance practice, "We'll find hotels that still have high customer satisfaction scores, but lower scores on the customer experience audit. It's a red flag for the hotel that diagnoses potential problem areas in advance, so they can fix problems before they show up in customer satisfaction scores, which are sometimes a lagging indicator of how well the hotel is truly serving its customers."

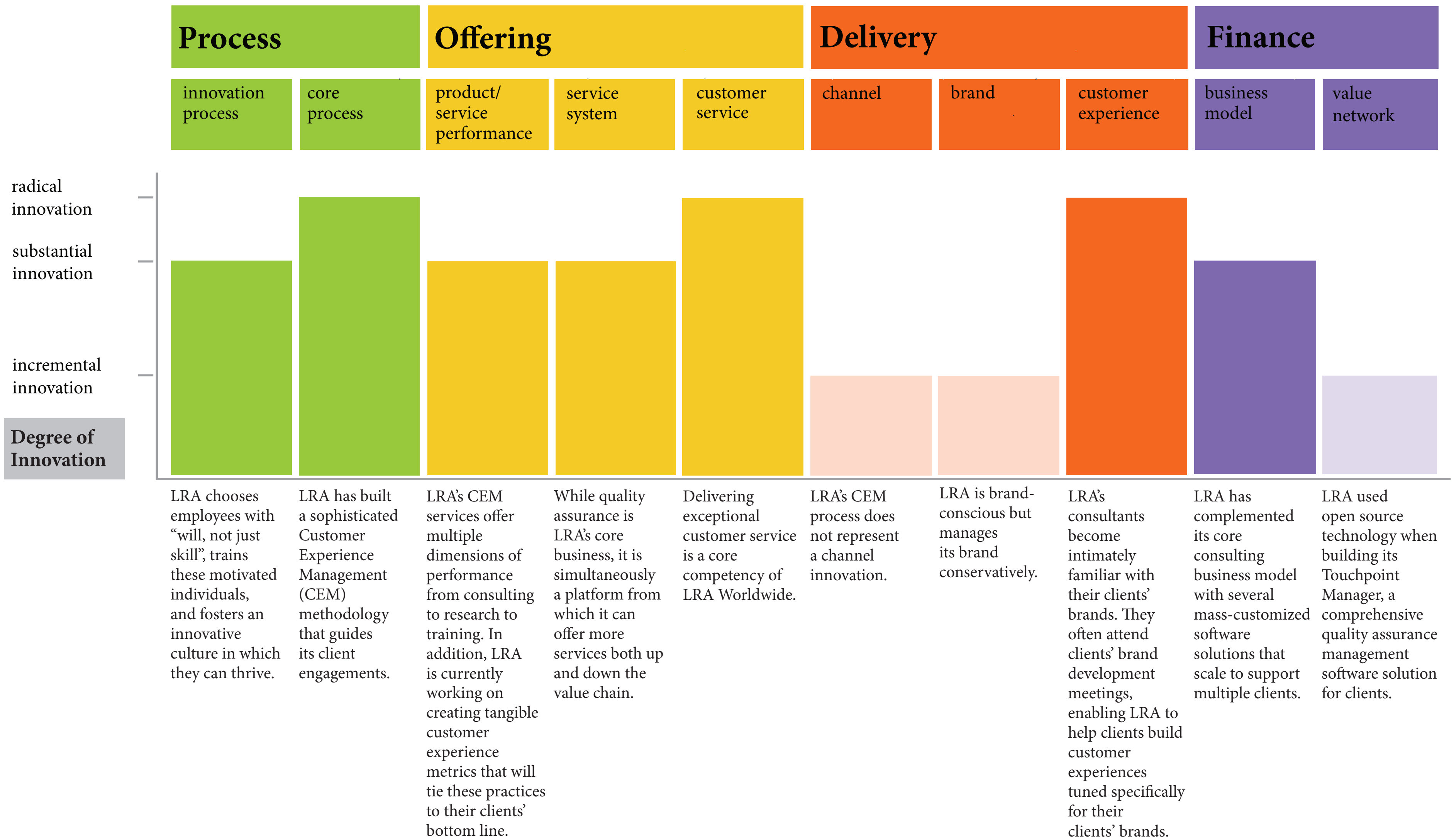


Table 17. Ten Types of Innovation Analysis: LRA Worldwide

Figure 26. LRA's Customer Experience Management Methodology

Customer Experience Metrics

Recognizing that most companies emphasize customer experience at the 'fuzzy front-end' of innovation, LRA sees an opportunity to apply Six Sigma principles to customer experience analysis to better measure its contribution to firm-wide success. LRA has identified several key metrics (figure 27) to audit customer experiences and is developing tracking mechanisms and processes to understand how customer feedback translates into financial results. Specifically, LRA helps clients understand how traditional customer satisfaction measurements such as surveys translate into operational indicators like repeat customer visits, and in turn, how those indicators translate into financial line items such as revenues.

Customer Satisfaction and Loyalty	Operational Indicators	Financial Indicators
Satisfaction surveys	Number of customer visits	Revenues
Focus groups	Customer retention	Profit
Quality Assurance audit scores	Customer lifetime value	HR/Training/Recruiting costs
Customer experience tracking	Employee turnover	Marketing and Sales costs
Research	Acquisition costs per customer	Market share
	Share of Wallet/Spend	

Figure 27. Metrics LRA Uses to Measure Customer Experience

LRA's Innovation Culture

LRA CEO Rob Rush notes that LRA takes an "old-school" (or, "traditional") approach to service innovation. Rush comments that, "Once you've established a trusting relationship with a client, you have a platform and an environment where there is a willingness to collaboratively explore new opportunities to serve the customer. At LRA, it's critical that we develop deep, emotional relationships with our clients. We strive to connect emotionally with a client, its brand, and its people."

Rush works to foster an innovation culture at LRA where experimentation is encouraged. "We come to the office everyday with an attitude that everything is broken and needs to be fixed. We ask ourselves everyday how we can serve our customers better." Rush notes that service companies must create a "safe environment for innovation which gives employees the courage and conviction to promote new ideas."

Service Innovation at LRA

Much like Crowe Chizek and ServiceBench, LRA shared a service innovation initiative that focused on building a scalable technology application to serve its consulting clients. Hotel chains set operations and customer experience standards that each hotel must meet, but grant "waivers" when a specific hotel cannot reasonably comply with each standard. (For example, a hotel chain may require that ceilings be four meters high, but one of its older hotel buildings may only have three meter high ceilings.) LRA noticed that their hospitality clients lacked a standardized method to manage these waivers across their hotels and saw an opportunity to introduce a software solution to manage these waivers.

As LRA began to investigate the market opportunity, it realized that its hospitality clients lacked an enterprise-wide mechanism to track not only waivers but also customer satisfaction and quality assurance scores, brand requirements, and asset management records (e.g. capital expenditures, maintenance records and requirements, equipment records, etc.) for each hotel in their chains. LRA responded to this market opportunity by building the *Touchpoint Manager*, a comprehensive quality assurance management solution, to replace the "one-off" data systems that hotels had previously used to manage and track each of these aspects of hotel performance.

"By focusing on our client's pain points," says LRA Senior Consultant Jeff Gurtman, "we recognized that we could build an enterprise-wide solution for hospitality clients that enables them to track critical quality assurance information which empowers them to deliver superior experiences for their customers." The solution – which was developed to be customizable for each client – introduces a new business model for LRA, allowing the company to introduce a scalable offering that meets the needs of multiple clients simultaneously.

5 Wholesale and Retail Trade

company	company profile
Ingram Micro	• World's largest global IT distributor • Serves 165,000 value added resellers • 11,000 employees • $27B revenues • www.ingrammicro.com • Santa Ana, California
Sitoa	• Sitoa operates an e-tailing engine that connects online retailers to their product suppliers through a seamless Web-based platform. • 44 employees • www.sitoa.net • San Mateo, California
American Girl (a division of Mattel)	• American Girl is one of the nation's top direct marketers, children's publishers, and experiential retailers. • 1,700 employees • $440M Revenues (2006) • www.americangirl.com • Middleton, Wisconsin

5.1 Wholesale and Retail Trade: Ingram Micro

Company	Ingram Micro	Read this if you want to learn:
Headquartered	Santa Ana, California	• How to adapt to an increasingly-commoditized business by creating value-added service offerings. • How to build communities around your product and service offerings. • How to craft a value chain where your company provides services that enable your clients to better serve their customers.
Industry	Wholesale Trade	
Company profile	Large-Cap, B2B2B	
Revenues	$28B	
# Employees	11,000	
Year Founded	1979	
Nature of Service Innovation	Goods and information processing	

Company Profile

Ingram Micro is the world's leading wholesale distributor of information technology products. The company generated $28 Billion in sales in 2005 and placed 72nd on the 2006 Fortune 100 list. Ingram Micro distributes computer products produced by high-technology manufacturers to its 165,000 **"Value Added Resellers"** (or **"VAR"**) partners, who in turn distribute the information technology solutions to their customers (which are often SMEs.) Ingram's Value Added Resellers (VARs) themselves range from small SMEs to very large government IT integrators like SAIC (Science Applications International Corporation) that employ thousands of technologists.

Distributors like Ingram Micro play a crucial role in the IT industry, connecting the people who make technology with the people who use it (as figure 28 shows.) Yet the wholesale distribution of IT products has increasingly become a commoditized service, as the margin for moving boxes of computer goods from one place to another has decreased. Ingram Micro's case represents a challenge faced by wholesalers worldwide: they must adjust their business from selling a commoditized good or product to developing their own value-added services for customers. Distributors like Ingram Micro must redefine their value to the IT supply chain by bringing together a new breed of technology solutions and supply chain services that enable innovation throughout the IT marketplace.

Responding to the challenge to create value-added services for its VAR channel, in October 2006 Ingram Micro created an entirely new *Ingram Micro Services Division* charged with developing new service concepts to support its value-added resellers. Ingram Micro named Justin Crotty to the position of Vice President of Services, charging him with charting strategic direction and oversight of the division. The Services Division has dedicated sales and technical service-focused teams, and is organized into three areas: professional IT labor services, warranty contract manage-

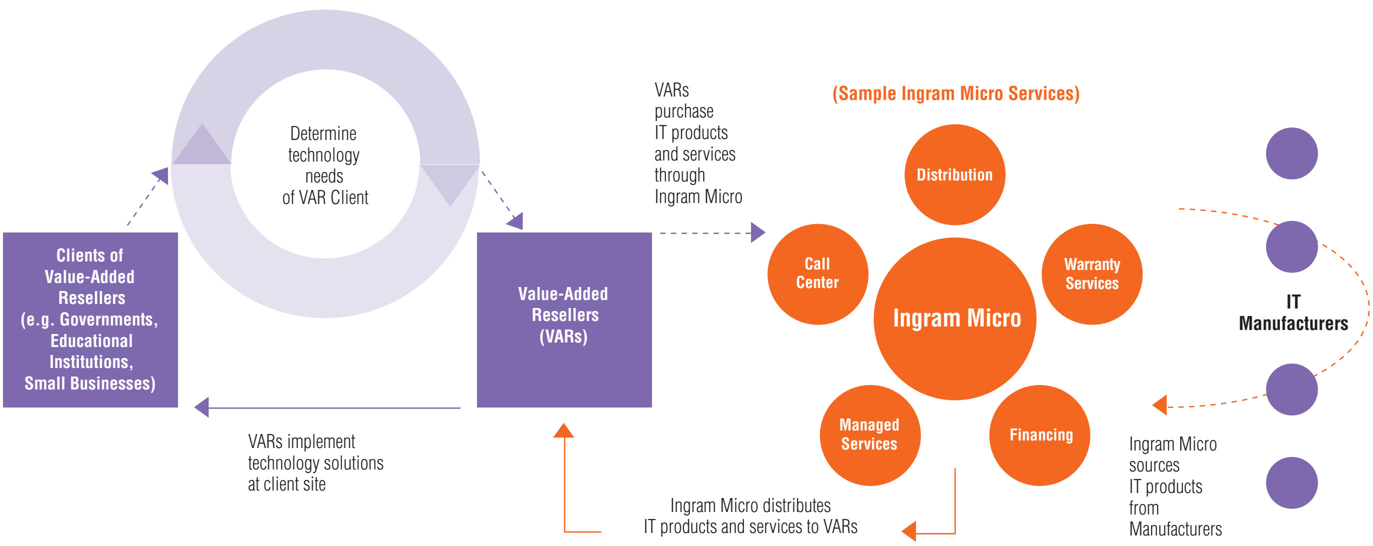
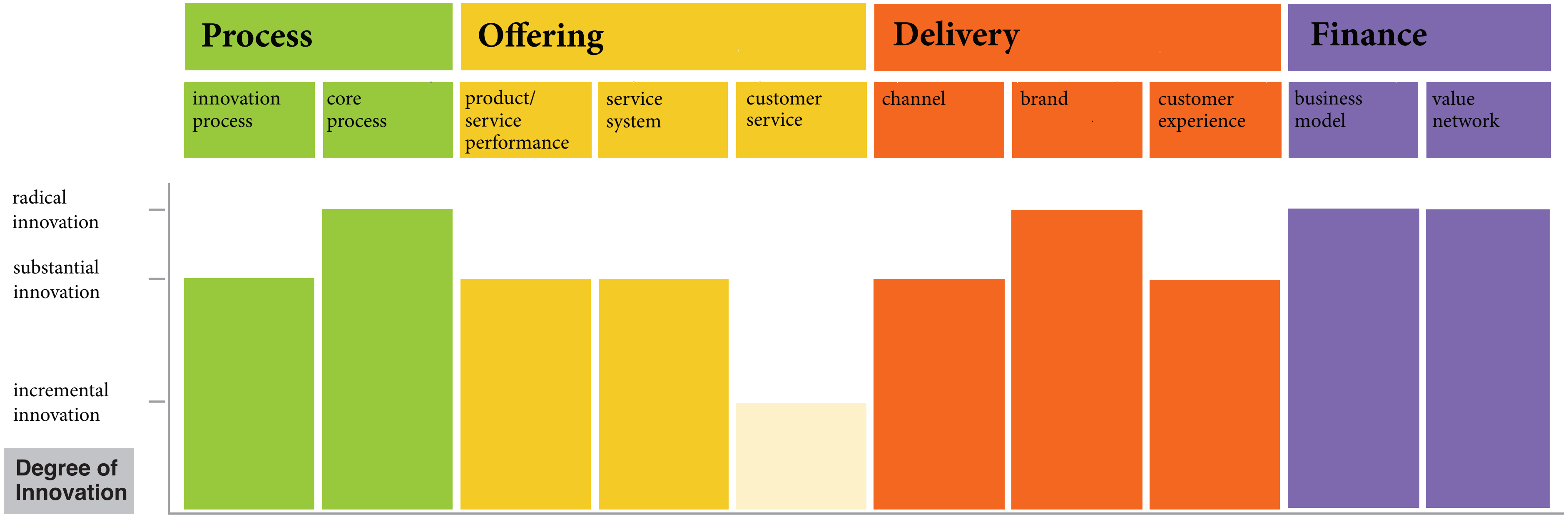


Figure 28. Schematic of Ingram Value Chain



innovation process	core process	product/ service performance	service system	customer service	channel	brand	customer experience	business model	value network
In January 2007, Ingram Micro launched a new Strategic Initiatives Execution Team responsible for design, development, and implementation of high-impact innovations.	Ingram Micro's new managed services initiative, Ingram Micro Seismic, will allow Ingram Micro's VARs to better serve their customers.	Ingram Micro Seismic leases Remote Network Management and Monitoring Services to VAR customers.	Ingram Micro leveraged its existing information technology platforms in building its new managed services offering.	Important to Ingram Micro, but not main thrust of innovation.	Ingram Micro fills a critical role in the world's global IT channels, connecting those who make IT products with those who use them.	Named its new service initiative "Ingram Micro Seismic" to express that the service represented a "seismic" shift in the IT distribu-tion industry.	Ingram Micro thoughtful to develop highly-compelling customer experiences for its VAR partners.	Ingram Micro recognized need to shift business model from selling/ distributing IT products to VARs to creating opportunities for VARs to provide services to their clients.	Ingram Micro's go-to-market strategy relies upon building exceptionally strong customer relationships with VARs by engaging them in one of four VAR communities.

Table 18. Ten Types of Innovation Analysis: Ingram Micro

ment and renewals, and managed services. The team's mission is to make services as, or even more important, to their VAR solution providers as selling products. Also, in January 2007, Ingram Micro announced the creation of a new Strategic Initiatives Execution Team with responsibility for the design, development, and implementation of high-impact innovations within the company.

This **services push** by Ingram Micro also anticipates a critical shift in the IT industry, as industry watchers expect IT services to grow at nearly double the sales of IT hardware over the next decade. As it shifts from wholesaler to solutions provider, Ingram Micro has realized the critical role **communities** play in building brand loyalty to the company.

Changing World of IT Distribution

As the business of distribution has evolved from a simple box-moving, product-based model to a go-to-market, service delivery strategy, Ingram Micro has begun to build out expanded service models for VARs serving the SME market.

VARs increasingly turn to wholesale distributors to help them take costs out of the supply chain and provide enhanced services. In particular, VARs have started to rely on their distributors for training, financing, and information on the latest technologies and solutions. Ingram Micro has also begun to assist VARs with non-traditional business resources such as group medical, legal, and advertising and creative resources.

Ingram Micro's services push recognizes the need for VARs and integrators to increase their product margins, differentiate themselves from competitors, and cultivate customer loyalty. "As services are consultative in nature, resellers can leverage them as a core competency to deliver above and beyond commoditized hardware and software delivery and installation," notes Justin Crotty, Vice President of Ingram Micro's new Services Division.

Ingram Micro was kind enough to extend an opportunity to look at how the company creates communities to drive VAR loyalty. Ingram Micro also shared its experience in creating a new Services Division and implementing a new managed services model – called *Ingram Micro Seismic* – to support its Value Added Resellers.

Ingram Micro's Communities

A key component of Ingram Micro's go-to-market strategy is building communities of resellers (these are communities of VARs sharing a common industry or vertical focus.) *Venture Tech Net* is Ingram Micro's premier community of 340 "Super VARs". Ingram Micro's "SMB Alliance" convenes a community of small and medium-sized VAR businesses, while Ingram Micro's "Gov-Ed Alliance" pulls in VARs who focus on government and educational sectors. (There is also a fourth VAR community for system architects.)

Lisa Payne, Ingram Micro's Director of Channel Management, commented, "Our goal is to make members of our VAR community feel special. We do a deep dive in their organization to identify pain points we can assist them with." Ingram Micro's communities build loyalty to the firm in three distinct ways:

1. By helping their customers grow. As their customers grow, VARs are in a position to do more business with Ingram Micro.
2. By enhancing customer profitability and decreasing their VARs' expenses and operating costs.
3. By connecting them with their VAR peers and providing insights into how VARs can manage and operate their businesses more effectively.

Ingram Micro segments its VARs using an "Image Interest Overlap" technique, which recognizes that VARs of different sizes face unique challenges. For example, by segmenting its VARs using the Image Interest Overlap technique, Ingram Micro can issue customized newsletters based on their VAR's buying habits. Key to Ingram Micro's community strategies are "invitationals" (Ingram Micro's term for conferences) that it hosts for each of its VAR communities several times a year. The conferences promote peer-to-peer interaction and exchange of best practices. These invitationals feature presentations by peer VARs, insights into future trends affecting VAR businesses and information technology industries, and presentations by technology manufacturers.

Ingram Micro creates advisory councils of VAR members that in effect serve as a Board of Advisors for each of the communities. Ingram Micro also uses customer panels and focus groups to ensure that the communities continue to deliver compelling value for their members. Says Lisa Payne, Ingram's Director of Channel Management, "After being a VAR community member for several years, VARs will sometimes ask, 'Is this still relevant to my business?' We recognize we must continue to provide access to services, information, and/or people that VARs couldn't otherwise get access to."

Ingram Micro sees the biggest challenge it faces with its VAR community strategy as driving penetration further down into the VAR organization. While CEOs of VARs regularly attend Ingram Micro's conferences, Ingram Micro recognizes it needs to find innovative new ways to provide services to CFOs, Sales Managers, and Technologists as well in order to create a truly engaged, sticky relationship at all levels of the VAR relationship.

Ingram finds that VARs within communities often **co-create** their own value, seeking out other VARs with which to forge alliances or partnerships. VAR partnerships are most common when the relationship can provide each partner with specific technical expertise the other does not have, or when a VAR needs to provide service or support for a customer in regions where it does not operate.

Ingram Micro's Seismic Service Initiative

At the core of Ingram Micro's **Seismic Services Initiative** is a **managed services offering**. Jennifer Baier-Anaya, Ingram Micro's VP of Marketing, notes that, "The Seismic Services Initiative is completely new to the industry, and a new venture for us. It promises to change the way both we and our partners do business."

The central component of Ingram Micro's managed service offering is its *Ingram Micro Seismic* service, which is a *virtual services warehouse*. With Ingram Micro Seismic, Ingram Micro offers Remote Network Monitoring and Management (RMM) capabilities for SME businesses, without requiring additional infrastructure investments. In effect, the initiative helps VARs add a *managed services capability* to their current portfolio of solutions for their SME customers.

Ingram Micro's key insight behind the Seismic service was that it would be too expensive for VARs to build the Remote Network Monitoring and Management (RMM) capabilities themselves. Ingram Micro could build this technology service platform and lease it to VARs.

For Ingram Micro, the shift toward a services model contained potential risk in cannibalizing its core business of distributing information technology products, especially as it encourages VARs themselves to shift from selling products to selling services. Interviewees credited the vision of Crotty, the new Services Division Vice President, for winning buy-in across the organization for the strategy.

Thus far, the *Ingram Micro Seismic* service has been a smash hit. It gives VARs the ability to: 1) proactively diagnose failure modes in advance, and perform system maintenance before network outages occur, and 2) if an outage does occur, often be able to fix the problem remotely without having to deploy technicians to the client site, saving time and money for both VAR and client.

Both VARs and their clients appreciate this managed services offering, as it is billed on a monthly recurring basis. Client's appreciate the stability and visibility the managed service brings to their cost structure. VARs, for their part, enjoy a recurring revenue stream that brings stability to their cash flows.

5.2 Wholesale and Retail Trade: Sitoa Corporation

Company	Sitoa Corporation	Read this if you want to:
Headquartered	San Mateo, California	• Learn how a company changed the face of web commerce. • Learn how to create a bi-directional value proposition. • Learn how to become the informational glue in a fragmented supply chain.
Industry	Wholesale and Retail Trade	
Company profile	SME, B2B	
# Employees	44	
Year Founded	2001	
Nature of Service Innovation	Information Processing	

Company Profile

Sitoa has built a web-based, transactional "e-tailing" engine that seamlessly connects Online Retailers ("e-tailers") with Product Suppliers in the e-commerce marketplace. Sitoa's e-tailing engine allows product suppliers to easily load their product inventory onto Sitoa's web-based platform, which online retailers can readily visit to select and upload products they want to sell on their websites (figure 29.) A key insight behind Sitoa's "One Source Model" is that the supplier handles order fulfillment directly on behalf of the retailer, shipping products purchased through the retailer's site directly to the customer. This **"supplier-direct fulfillment model"** (or **"inventory-less distribution model"**) offers two advantages:

1. The e-tailer need not maintain extensive and expensive inventories at its location.

2. Since the e-tailer need not manage physical inventory, it can sell inventory-intensive product categories online, allowing the e-tailer to offer a much greater diversity of product categories through its website. By enabling the retailer to market a much richer set of products, Sitoa helps e-tailers realize incremental revenues and increased profits.

Sitoa's solution creates a win-win-win relationship for all parties: retailers can sell new products without taking physical possession of the merchandise, customers get better selection, and Sitoa's manufacturing partners achieve new distribution channels.

Sitoa actually takes its name from the Finnish word "sitoa." Founders Cal Lai and Jackson Hull chose the word to capture the essence of the company's service – to tie online retailers and product suppliers together. Sitoa's clients include leading online retailers such as Sears, Kmart, and Best Buy.

Industry and Company History

Cal Lai, Sitoa's Co-Founder and CEO, notes that, "retail has long been a very cost-intensive business." Specifically, Lai observes that, "one generally has to move a product somewhere to get it in front of the customer and sell it." On average, it takes 60-70 days for a product to get from a factory dock to stores, with 40 days usually the soonest the best companies can get product from manufacturing plant to retail shelves. If a company is selling high-tech electronic devices like computers, which can become obsolete in as little as 120 days (4 months), one loses a third or more of the product's lifecycle in its transit alone.

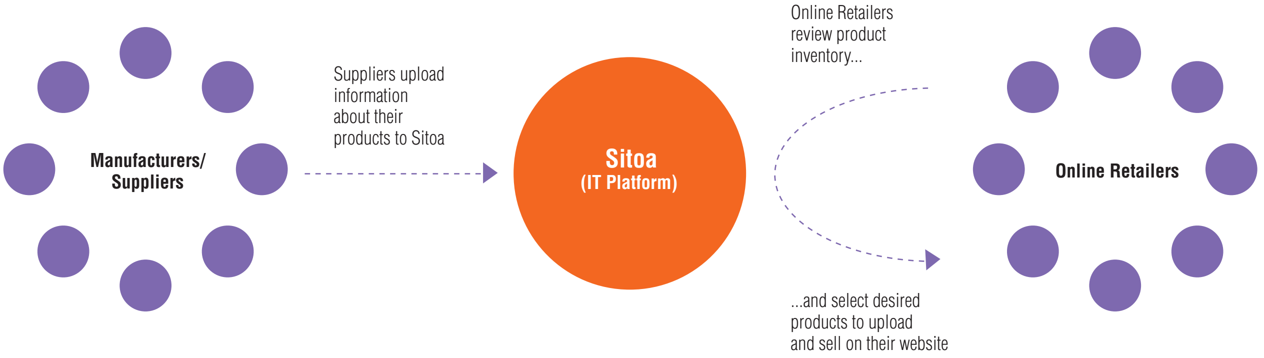
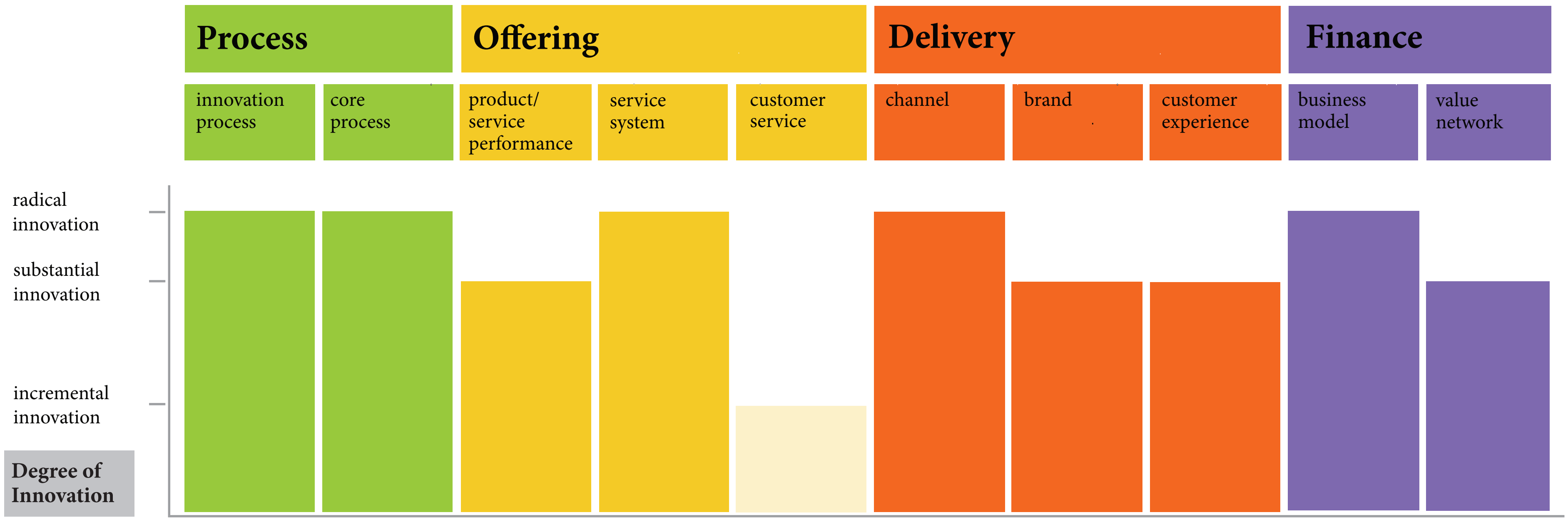


Figure 29. Schematic of Sitoa Value Proposition



innovation process	core process	product/service performance	service system	customer service	channel	brand	customer experience	business model	value network
Sitoa fosters an exceptionally innovative culture. It uses “task teams” to get individuals from different departments working together to solve challenges and builds an ownership mentality amongst all employees.	Sitoa’s “OneSource” innovation is a new core process for online commerce that uses an inventory-less distribution model.	Sitoa’s e-tailing engine seamlessly connects product suppliers with online retailers.	Leveraging its One Source model, Sitoa offers merchandising consulting services to online retailers, helping them develop a product mix optimized for their target market demographic.	Important to Sitoa, but not core focus of innovation.	Recognizing that the Internet flattens all value chains, Sitoa simultaneously aggregates both (product) supply and (retail) demand through a single Web platform.	Founders Lai and Hull named the company after the Finnish word “sitoa”, looking to capture the essence of their service that “ties” or “binds” retailers with suppliers.	Sitoa creates an entirely new experience for its retailer and supplier partners by dramatically expanding the reach and breadth of their offerings.	Sitoa does not just take a transactional slice of products exchanged through its web platform, it acts as a market maker that purchases and resells products at margin. Sitoa complements this business model with merchandising consulting services.	As it begins to expand its operations globally, Sitoa will look to team with local partners, as with its China Direct program.

Table 19. Ten Types of Innovation Analysis: Sitoa Corporation

Lai imagined what a retail business might look like that could move data instead of products. The physical item would remain in one spot (and when purchased get shipped directly to the buyer) while the data and information about the product could be made available everywhere. This, Lai thought, would be the market of the future, where inventory and transportation costs are virtually non-existent for retailers.

Lai's vision, which grew into Sitoa, significantly reduces the cost structure of online selling by creating a technology platform that seamlessly links network nodes – the retailers and suppliers – through direct data transfer. In essence, Sitoa mimics a business model popularized by E-Bay. But whereas E-Bay focuses on C2C (customer to customer transactions), Sitoa has applied the model in a B2B2C (business -to-business-to-consumer) environment.

As with E-Bay, the elegance of Sitoa's model is, in CEO Lai's words, "a network strategy that shifts power and control to the nodes (e.g. users) at the edge of the network." Sitoa builds a web platform for the exchange of products, earns a margin on products exchanged through its medium, and then shifts much of the complexity to the system's users, letting the retailers and suppliers do the hard work of building out product catalogs, managing inventories, and shipping products to their purchasers.

Value Proposition

Sitoa has created a **bi-directional value proposition** between suppliers and retailers. It is difficult to devise and maintain such relationships. At some point, one side, usually the one with the lowest switching cost, tends to dominate the relationship. But Sitoa has done admirable work in devising an end-to-end system that creates value for both sides of the value chain.

As Sitoa CFO Eric Hassman explains, "America's largest retailers have more than 30,000 suppliers, but they only electronically integrate about sixteen of these suppliers a year into their data systems. Our system can get new suppliers setup and connected with hundreds of retailers in as little as a few hours." By building a trusted network of suppliers and retailers operating from a common web platform, Sitoa has eliminated the need for the time consuming and costly creation of direct data transfer arrangements between individual suppliers and retailers.

Sitoa has succeeded at leveraging the Internet to reshape commerce through the simultaneous aggregation of supply and demand where previous efforts – especially those by then .com startups *Commerce One* and *Ariba* in the mid- to late 1990s – have failed. Observes CFO Hassman, "The difference is that previous approaches asked suppliers to spend millions integrating their systems with the startup's new IT platforms. In contrast, our approach doesn't require anyone to change their IT systems; we adapt our system to accommodate supplier's and retailer's existing business processes. Our technology was built to handle the data translation."

Business Model

Most Internet business models are either advertising or transaction-based. Advertising models, like Google's, take a fee for directing potential customers to a business's website or products. Transactional models, like E-Bay or Amazon's Marketplace, charge a fee for each product sold through their platform.

Sitoa, in contrast, acts as a **market maker** that actually participates in each transaction. When a consumer orders a product (for example, a computer, as shown in figure 30) from one of Sitoa's e-tailer clients, the e-tailer communicates the order information to Sitoa. Sitoa then purchases the product from its manufacturer/supplier, leaving the custom-

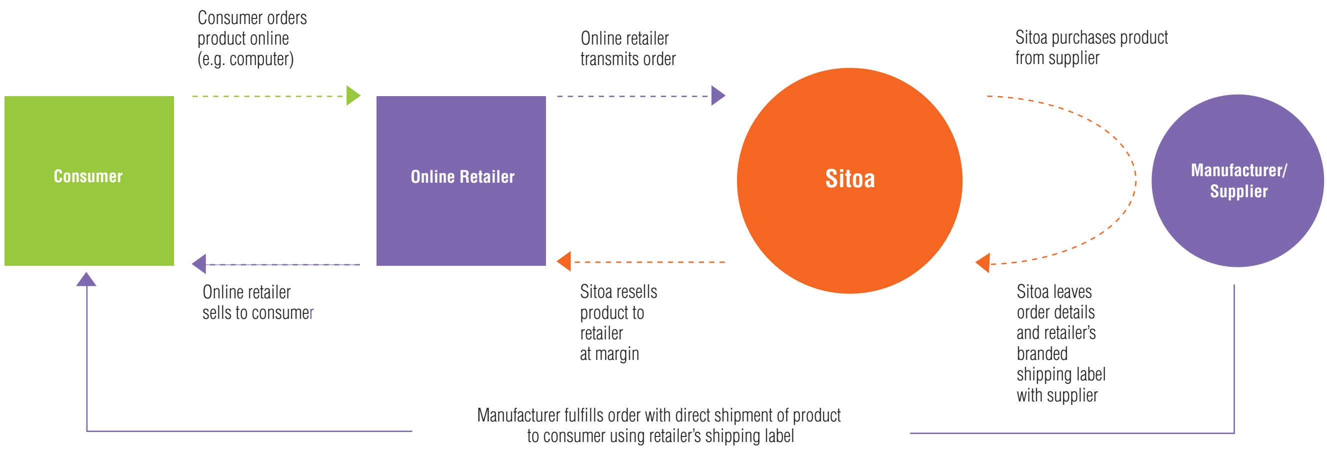


Figure 30. Schematic of Sitoa Business Model

er's order information with the manufacturer/supplier so that the supplier can ship the product directly to the customer using the retailer's branded labeling. Sitoa then sells the laptop computer at a margin to the online retailer, who in turn sells the laptop to its online customer, at its own margin. Critically, these steps occur "seamlessly" (or near-instantly) through Sitoa's information technology platform.

Sitoa complements its market-making business model with merchandising consulting services. Retailers often assign their merchandise managers responsibility for 3-8 online product categories. In contrast, Sitoa's merchandise experts have responsibility for a single product category, and apply their expertise in that product category across Sitoa's entire range of retail partners. Says CFO Hassman, "Retailers are looking for different mixes of products at various price points tuned to their target demographic. We provide merchandising services that analyze a client's product portfolio, and suggest how to put forward the most appealing product mix to their customers."

International Opportunities

Though over three quarters of both Sitoa's supplier and retail partners are American-based companies, Sitoa's business model scales internationally with ease. While Sitoa has plenty of growth potential in the $1.2 Trillion U.S. market for goods, the $20 Trillion global marketplace for goods offers appeal as well.

Through a "China Direct" program announced in 2005, Sitoa took steps to forge the first true direct connection between thousands of Chinese and Asian suppliers and U.S. markets, enabling suppliers to place their products directly in front of potential U.S. consumers. CFO Hassman notes that Sitoa's international strategy will be marked by the careful selection of local partners in new geographies. Hassman listed several challenges that young firms, including Sitoa, must be mindful of as they scale their services internationally:

1. Not underestimating the importance of cultural differences.

2. The amount of time it takes to create a strong foundation of relationships in the new country.

3. Attracting and retaining employees overseas is often significantly more difficult because they do not respond to the same incentives. Like other companies in the study, including ServiceBench and The Hartford, Sitoa sees benefit in establishing a local employee base for international operations.

Organizational Innovation

Sitoa strives to foster an extremely innovative culture. As Jackson Hull, Sitoa Co-Founder and CTO explains, "Innovation is as much about culture as it is process. We use what we call 'Task Teams.' These are teams composed of staff from different departments (e.g. marketing, IT, and accounting) that are charged with solving specific problems or challenges. The task teams give colleagues the chance to interact with diverse ideas and perspectives." The task teams accomplish several functions for Sitoa: 1) they foster an ownership mentality in the firm, 2) they provide a venue that empowers people to express their opinions, and 3) they create an environment that rewards "informed risk-taking."

Finally, Sitoa employs a consensus-based decision making model that distributes responsibility for decision-making through five levels in the organization. Sitoa's model draws from the pioneering work of Victor Vroom, Strategy Professor at Yale's School of Business. Vroom's groundbreaking research applies psychological analysis to study the behavior of organizations. Vroom's *Expectancy Theory* teaches managers how to maximize employee motivation and performance.

5.3 Wholesale and Retail Trade: American Girl (a division of Mattel)

Company	American Girl	Read this if you want to learn:
Headquartered	Middleton, WI	• Learn concepts of "experiential marketing" and create an extraordinarily compelling customer experience. • Learn how to connect in-store, Web-direct, publishing, and entertainment/media channels in the service of a unified customer experience. • Learn how a company built a cultural phenomenon through the art of storytelling.
Industry	Retail Trade	
Company profile	Mid-Cap, B2C	
Revenues	$440M (2006)	
# Employees	177,000	
Year Founded	1986	
Nature of Service Innovation	Information Processing	

Company Profile

American Girl is one of America's leading experiential retailers, children's publishers, and direct marketers. Fulfilling its core mission to celebrate girls, American Girl's age-appropriate dolls, accessories and books work in tandem to shape and enhance young girls' growing-up experiences. Pleasant Rowland introduced American Girl dolls in 1986 as a historically-themed alternative to popular children's toys such as Barbie Doll and Cabbage Patch Kids. Rowland created a line of dolls based on eight historically-accurate and culturally-authentic characters and brought them to life in a series of kid-friendly books of historical fiction. In 1998, American Girl opened its first "American Girl Place" store in Chicago (followed by stores in Los Angeles and New York City) turning the relatively small outfit into a cultural phenomenon with a nearly half-billion-dollar business. Mattel, one of the world's largest toy makers and owner of the Barbie line, acquired American Girl in 1998.

Innovative Service Concept

What sets American Girl apart from competitors is its use of **experiential retail marketing** and **customer experience design** across its in-store and direct (both catalog and Internet) media channels. The American Girl experience is a combination of three strongly innovative components: an extremely engaging, educationally-driven story intended to strengthen mother-daughter relationships, multiple channels to bring that story to customers, and a memorable in-store experience.

American Girl's series of historical fiction books tell compelling, realistic stories about fictional nine-year old girls growing up during important periods of American history. The stories give girls a glimpse of defining points in America's past, and teach that, while some things about growing up have changed over the past 250 years, core values – such as staying true to family and friends, and showing loyalty and compassion for others – remain constant. Whereas other dolls tend to reinforce an idealistic vision of youth, beauty and popularity, American Girl dolls deal with more mature, emotionally-complex and challenging storylines. Parents appreciate the American Girl brand because its educational components teach young girls age-appropriate lessons about growing up while offering an optimistic perspective that promotes maturity, strength of character, and wholesome values among young ladies.

Creating an Exceptionally Compelling Customer Experience

The mother-daughter relationship is the central theme of the American Girl Place store experience. For a young girl, a trip to one of the three American Girl Place stores is a special event that gives her the opportunity to provide her doll with services. The company notes that many visitors to the Chicago store travel three to six hours to get there – with their average store visit lasting over two hours. (By comparison, the average length of a retail store visit in the United States is approximately twenty minutes.) Moreover, many patrons – especially those traveling from out of town to the stores – pay multiple visits, sometimes two or three in the same weekend.

Explains Julie Parks, American Girl's Director of Public Relations, "Our mission is to create lasting emotional connections that turn the everyday shopper into loyal fans. We want to make a visit to one of our American Girl stores be the best, most memorable experience possible for the girls we serve."

Each of the three showplace stores feature carefully-designed experiences. Quite popular are **services for the dolls themselves**, including appointments with a doll hair stylist (figure 31, page 62.) The biggest in-store draws are the American Girl Place café and theatre. The café serves sophisticated, yet girl-friendly food to families where the children dine next to their dolls, which get their own doll-sized plates and cups and fit into customized doll-sized seats. American Girl attends to every aspect of a family's experience at an American Girl store, even the **non-consumers**: Concierges hand brothers Game Boys as they enter the store, keeping them occupied as mother and daughter shop.

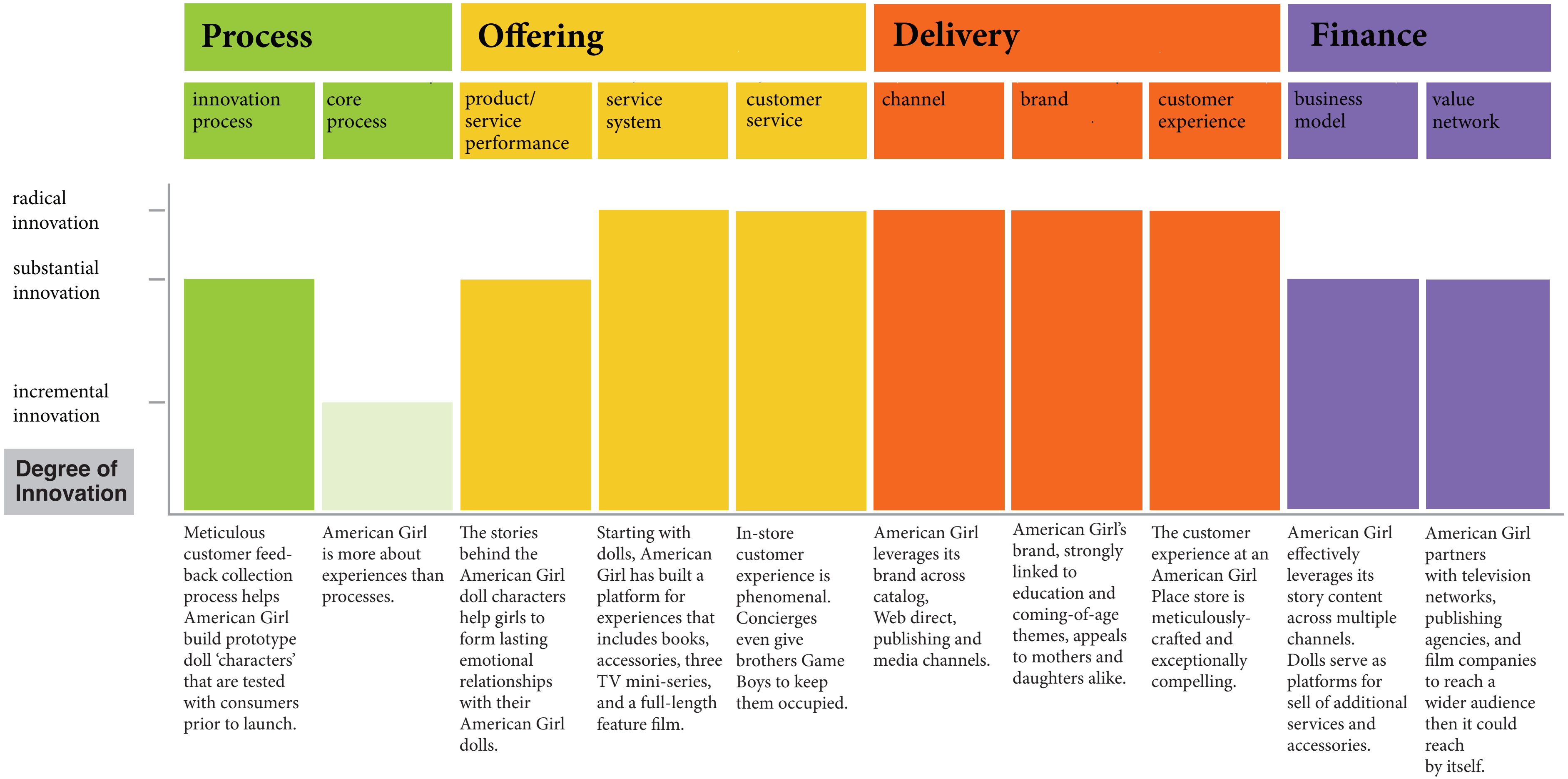


Table 20. Ten Types of Innovation Analysis: American Girl

Figure 31. American Girl dolls with hair stylists at American Girl Place

For most patrons, the centerpiece of an American Girl Place store visit is attending one of two original live musical productions, *The American Girls Revue* (figure 32) or *Circle of Friends: An American Musical*. Written by Broadway playwrights Gretchen Cryer and Nancy Ford, both musicals are professional theatre productions for children based on the American Girl historical fiction series. Customers traveling from out-of-town often purchase American Girl Place Packages which include theatre tickets and accommodations at nearby affiliated hotels – which offer special in-room American Girl *doll beds*.

Business Model

Integral to American Girl's business model, of course, are sales of the American Girl dolls – and the popular accessories and services that come with them. But as Parks notes, "Story is truly at the heart of what American Girl represents; it is what sets us apart from other brands, shifting the dolls from being mere playthings to becoming authentic characters with whom girls form lasting emotional relationships." At American Girl, the characters and their stories are so intertwined that American Girl will not sell a doll separate from its corresponding book. The stories of the American Girl characters, then, represent the core platform of American Girl's business model. American Girl effectively leverages the story content across its children's publishing (magazine and historical fiction book series) and media channels.

American Girl recently finalized a deal with HBO and Picturehouse to develop a feature-length film based on Kit, one of the American Girl characters. Three additional American Girl characters - Felicity, Samantha, and Molly - have each been the subject of recent made-for-television movies. American Girl also licenses its brand, cutting a deal with Bath & Body Works to offer a line of personal care products for young girls.

Recently, the company has moved to capitalize on the phenomenal success of its flagship American Girl Place stores. Customer feedback suggested patrons wanted better access to the American Girl brand, and the company's own research showed that its best customers were ones who first had an interaction with the brand through the retail stores. In response, the company has created a new line of *American Girl Boutique and Bistro* stores, opening in Dallas and Atlanta this year.

Innovation Process

Parks notes that American Girl "strives to stay highly innovative." Each year, American Girl offers a new limited-edition doll. These dolls function as contemporary, modern day characters that complement the eight original historically-themed doll characters. These "Girl of the Year" dolls are offered for one year only and are designed with a carefully-tested character theme in mind. In creating the new doll, American Girl conducts a meticulous customer feedback collection process from its in-store, magazine, web, and book publishing channels.

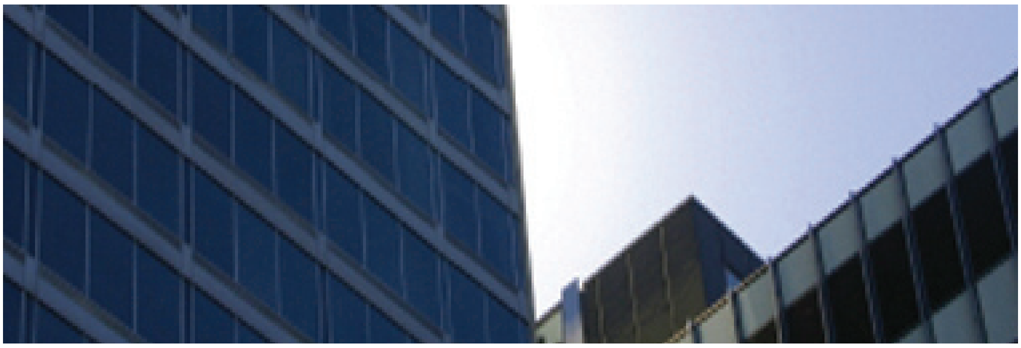
After evaluating this feedback, the company's marketing team creates several different doll concepts, which include attributes such as where the doll comes from and its favorite activities. American Girl then prototypes the concepts with a select customer panel, selecting a theme with their input. Once the concept is finalized, American Girl writes a book telling the doll's unique story, and designs outfits and accessories that correspond to key events in the book. In January, just after Christmas sales wind down, each store holds a party as the new "Girl of the Year" is unveiled.

The Power of Story in Brand-Building

In conclusion, what is truly unique about American Girl is that, as Parks explains, "Moms love this brand as much as their daughters do. Young girls find American Girl dolls cool and entertaining, while moms find them educational and wholesome." It is a unique brand that can appeal equally to kids and parents alike, but American Girl has used the power of story to achieve this remarkable feat.

Figure 32. The American Girls Revue

6 Logistics



company	company profile
Total Quality Logistics	• Innovative non-asset-based third-party logistics provider that facilitates truckload freight shipments. • Grew from staff of 2 in ’97 to 665 in ’07 • Made Inc. 500 Best US Small Companies List Two Years Running • 665 employees • www.totalqualitylogistics.com • Cincinnati, Ohio
Service Bench	• Its solutions fully integrate the complete range of post-sales service management activities, including service call management, field service management, and parts, repair, and warranty management. • A Virginia “Fast 50” Company • 95 employees • www.servicebench.com • Fairfax, Virginia
Brivo Systems	• Brought disruptive innovation to the building access control/security industry with a Web-hosted, software-as-a service application. • 32 employees • www.brivo.com • Bethesda, Maryland

6.1 Logistics: Total Quality Logistics

Company	Total Quality Logistics	Read this if you want to learn:
Headquartered	Cincinnati, Ohio	• How to change the basis of competition in an established industry. • How to differentiate your business based on exceptional customer service. • How to rapidly scale a service business.
Industry	Logistics	
Company profile	Mid-Cap, Private, B2B	
Revenues	$350M (2006)	
# Employees	665	
Year Founded	1997	
Nature of Service Innovation	Goods processing	

Company Profile

Total Quality Logistics ("TQL"), perhaps America's fastest growing ***non-asset based, full truckload third-party logistics provider ("3PL")***, facilitates truckload freight shipments for clients (figure 33.) TQL manages transportation of 180,000 truckloads annually for its 3,150 business customers, which range from small companies to Fortune 500 organizations.

TQL's founders, Kenneth Oaks and Ryan Legg – then salesmen for produce distributor Castellini Company – had the brainstorm to form a 3PL as they observed the consistently poor performance of logistics carriers moving Castellini's perishable fresh produce: missed shipment deadlines causing the produce to spoil and a lack of communication after hours and on weekends. They founded TQL in 1997 with the mission to provide the best, most reliable truckload transportation in the industry through proactive communication, accessibility, and reliability.

In ten years, Total Quality Logistics has grown from those two founders to a staff of over 650. With a 50% average growth rate since its founding, TQL's revenues have grown to $350M. The company expects to pass the $1B revenue mark by 2012, a mere fifteen years after its founding. TQL has disrupted the third-party logistics industry by 1) developing an industry-leading employee recruiting and training

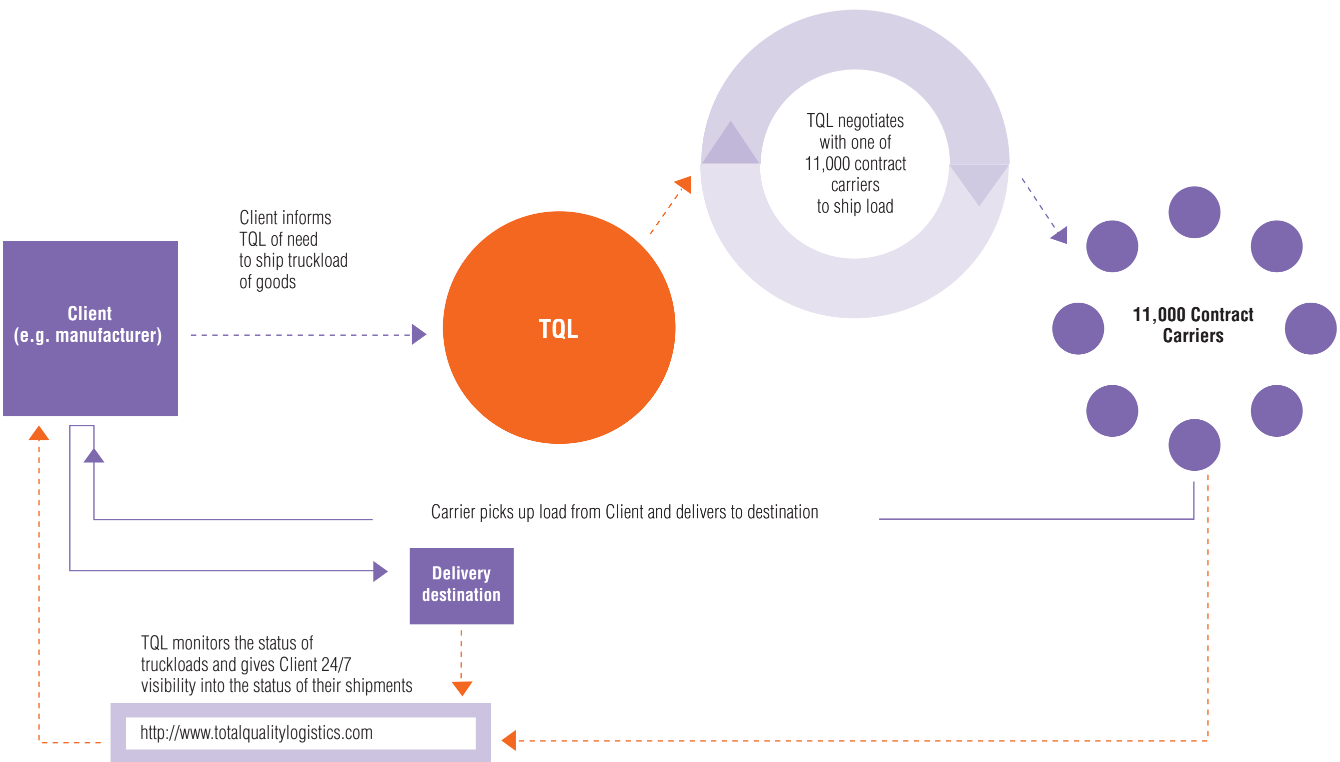
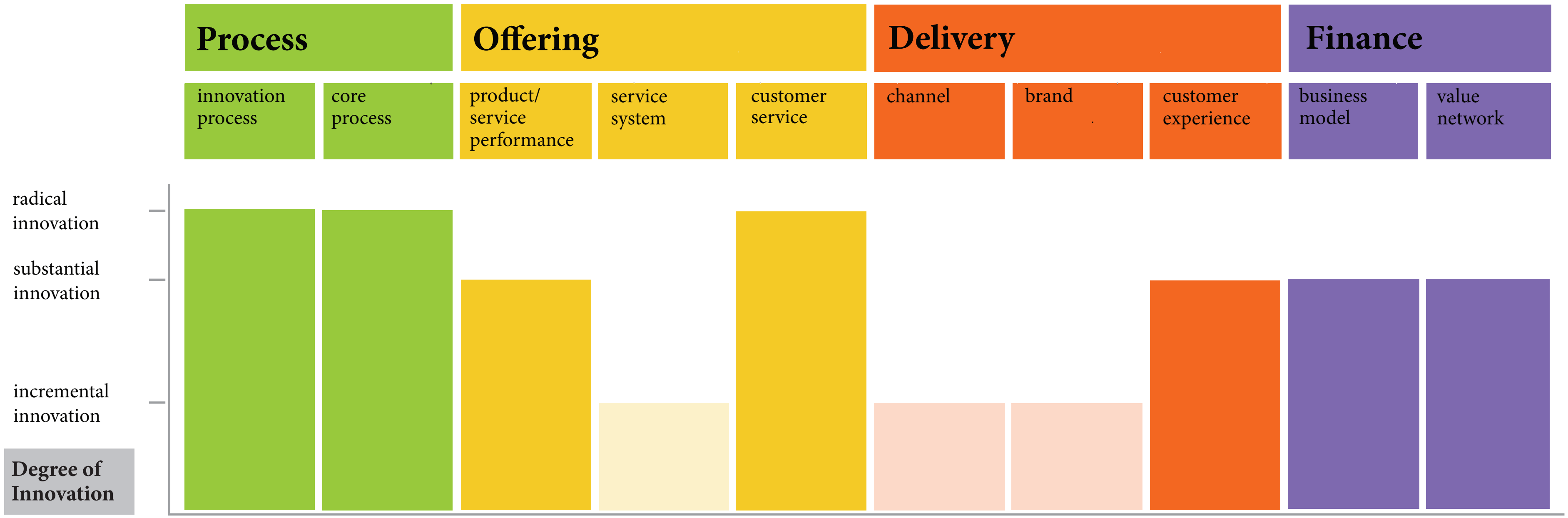


Figure 33. Schematic of Total Quality Logistics Business Model



innovation process	core process	product/service performance	service system	customer service	channel	brand	customer experience	business model	value network
TQL's six-month long Logistics Account Executive (LAE) Training program unique in the industry.	Custom-built an industry-leading IT system to manage client's freight load shipments.	Quality of IT systems enables TQL to give clients the ability to track the status of their shipments through the Internet on a 24/7 basis.	TQL keeps focus on full truckload shipments, and does not currently handle less-than truckload traffic. For some clients, TQL provides freight coordination services.	TQL disrupted 3PL industry by creating an IT platform that allowed it to dramatically raise customer service standards.	TQL's aggressive sales culture rewards salespeople who personally build client relationships with the opportunity to earn commissions of up to 100%.	TQL is brand conscious, but brand not main thrust of innovation.	TQL's core basis of competitive differentiation is the customer experience it offers its clients.	Revenues earned by the truckload – as at other 3PLs – but TQL unique in how it incents Account Executives to participate in profit making.	Acts as an intermediary between clients and contract carriers who move their freight.

Table 21. Ten Types of Innovation Analysis: Total Quality Logistics

strategy, and 2) building an information technology platform that allowed it to dramatically improve customer service standards in the industry.

Industry Survey

As a third party logistics provider, TQL provides outsourced logistics functions for its clients. TQL is a ***non-asset based***, as opposed to an ***asset-based***, third party logistics provider. The distinction is that asset-based 3PLs own and operate their own fleet of trucks, which they use to ship their client's products. Non-asset based 3PLs, in contrast, do not own their own vehicles, but rather contract with shipping companies – called ***contract carriers*** – to transport their client's wares. Another distinction about TQL's business is that it contracts for only ***Full Truckload*** shipments; it does not currently handle LTL, or ***Less-Than Truckload***, shipments for clients.

Total Quality Logistics provides a critical link in the value chain of the U.S. logistics industry by outsourcing product shipments for some of America's largest corporations, including Wal-Mart and Kroger, allowing them to focus on the core competencies of their businesses. Yet Total Quality Logistics did not invent the non-asset based third party logistics business model, nor is it the largest such 3PL in the United States. What then accounts for its explosive growth rate over the past decade?

The rapid growth of the industry itself has been a contributing factor. The U.S. logistics industry is a $300B industry, of which 3PLs like Total Quality Logistics control $60B, or about 20%, of the market. Moreover, the U.S. Department of Transporation estimates that the amount of freight moved by trucks in the U.S. will double by 2020. However, general growth in the industry does not explain how TQL has been able to achieve a growth multiple in excess of its peers.

In interviews, TQL managers credited the company's explosive growth to two specific factors:

1. Its commitment to hiring the most talented logistics professionals and investing in them with a six-month training and development program.
2. Its information technology infrastructure, which enables the company to deliver superior customer service, including giving clients 24/7 visibility into the status of their freight shipments.

A Strategy to Recruit and Train the Best Talent

Central to TQL's success are its 255 Logistics Account Executives, or LAEs, (pictured in figure 34), who serve as a single point of contact and accountability to clients. In 2006, over 11,000 candidates applied for TQL's LAE positions. The company's staff of 12 recruiters hired 400, less than 4%, of the 11,000 applicants.

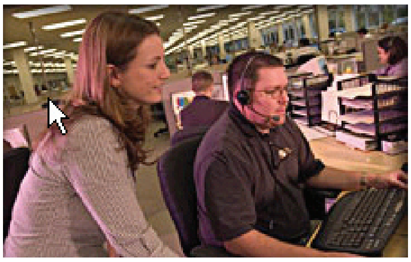


Figure 34. Logistics Account Executives in TQL's "Open Floor" Office Environment

Account Executives are charged with learning the day-to-day shipping and logistics needs of their clients and placing their loads with contract carriers. This responsibility requires an exceptional level of personal client interaction: as trucks roll seven days a week moving clients' products, TQL Logistics Account Executives must be available to support clients as needed.

TQL's industry-leading customer service is the product of a six-month training program that all new Account Executives receive. Kerry Byrne, Executive Vice President for Total Quality Logistics, credits this extensive employee development – quite rare in the industry – as a key growth driver. "For six months, new hires spend half their time learning the trucking business and the other half learning sales. We hire quality people and then invest in them with leadership, sales, and project management training." TQL's emphasis on training is reflected in that it allocates a staff of twenty to year-round training of Account Executives.

Total Quality Logistics also leads the industry in its aggressive compensation and bonus program for Logistics Account Executives. The Account Executives, who are paid on a 100% commission basis, are compensated with a percentage of the profit that TQL earns for each truck load shipment they broker between a client and a contract carrier.

An IT Platform that Raises the Industry's Customer Service Standards

Total Quality Logistics custom-built an information technology platform that enables it to deliver industry-leading customer service and provide clients 24/7 real-time visibility into the status of their freight shipments. Instead of purchasing off-the-shelf software and databases – as many of its competitors have – TQL's system tracks everything relevant to its business:

- Information on each Logistics Account
- Sales and Marketing Prospect Database
- Truck Load Dispatch, Routing, and Tracking
- Accounting and Billing
- Performance of Contract Carriers

At the heart of TQL's information technology platform is a "load program" that tracks and manages all truck load shipments TQL brokers for its clients. EVP Byrne credits the quality of TQL's information platform to the company's IT team. "Our IT staff is committed to making life easier for our customers and carrier partners. They truly bring an *anything is possible* attitude." Even 5-10 years ago, much of this information would have been tracked by pencil and Excel spreadsheet. Today, TQL's industry-leading data platform enables it to provide value added services such as electronic data interchange (EDI), web-based shipping and tracking systems, e-mail status notification, and customized reporting.

Indeed, TQL distinguishes itself from competitors based upon the superior communication it is able to have with customers about the status of their freight shipments, information made available by the quality of TQL's real-time data platform. Not only can TQL find a truck at a moment's notice to accommodate a customer's need for immediate shipment, it gives customers the ability to see where all the trucks carrying their loads are at a moment's notice.

TQL's information technology platform also maintains information on each of the 11,000 contract carriers TQL partners with to move client freight. The system tracks each carrier's insurance policies, truck/vehicle maintenance histories, and claims and accident histories. TQL had the innovative insight to give the contract carrier's dispatcher and driver a grade for each load they ship. The database keeps an aggregate grade on the performance of each contract carrier, enabling TQL to direct more business to the carriers delivering the best customer experiences – or to filter out carriers that fail to meet their stated delivery times or otherwise provide poor service experiences.

6.2 Logistics: ServiceBench

Company	ServiceBench	Read this if you want to:
Headquartered	Fairfax, Virginia	• Learn the latest about how companies are integrating their post-sales service supply chain. • Learn how to turn a post-sales service operation from a cost center to a strategic source of competitive advantage and profit. • Learn about consolidating a fragmented industry with an integrated Web offering.
Industry	Logistics	
Company profile	SME, B2B	
# Employees	95	
Year Founded	2000	
Nature of Service Innovation	Information Processing	

Company Profile

ServiceBench has built a ***Web-hosted, software-as-a-service application*** that fully integrates the complete range of ***service management*** activities (figure 35) that are required to support products – from appliances to computers – after they have been sold. ServiceBench's web-based solution provides clients with the following services:

- Service Call Management
- Field Service Management
- Parts Management
- Repair Management
- Warranty and Claims Management

ServiceBench delivers each of the above services – or "modules" – on an ***on-demand*** basis, meaning that the client can select and pay for each module as needed, without having to fully purchase and deploy an enterprise-wide application.

With ServiceBench's solution, clients can fully integrate their: handling of inbound service calls for customer service claims, dispatch of field service technicians, evaluation of whether a defective product is or is not under warranty, ordering of parts required for repairs, processing of warranty claims, etc. – all through a single Web interface.

ServiceBench finds that when clients deploy a full implementation of the ServiceBench system, they will often replace what previously had been 4-5 distinct software applications that managed separate aspects of service support. That is to say, before signing up with ServiceBench, clients often have different: 1) service call management and technician dispatch systems, 2) parts management systems, 3) warranty and claims management databases, etc. ServiceBench integrates all these components of the service supply chain through a common web platform.

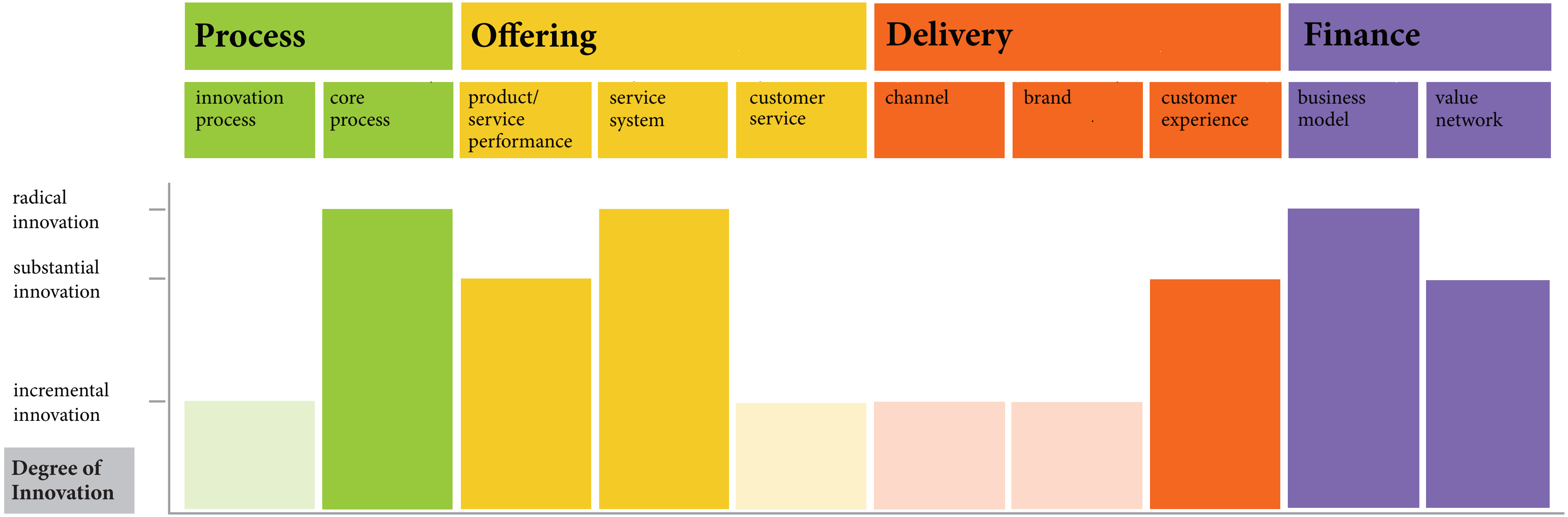
Company History

The post-sales service supply chain is the least automated, most manual and labor-intensive segment of the supply chain. ServiceBench saw an opportunity to bring to market an integrated software solution that would ***manage all aspects of post-sales service delivery for large services organizations.*** ServiceBench recognized it could take on this complexity on behalf of their clients, allowing them to devote their resources strictly to providing customers with first-rate service quality and product performance that promotes brand loyalty.

Founded in 2000, ServiceBench states its mission as helping clients transform their understanding of post-sales service and support from a time-consuming and costly necessity to a smoothly running, customer-focused process that generates measurable financial return and true strategic value.

ServiceBench's client list includes over 40 leading Global 500 manufacturers and retailers – from appliance manufacturers like Whirlpool to consumer electronics manufacturers like Mitsubishi to retailers like Sears. Over 40,000 service technicians use ServiceBench's web-based service each day to schedule and dispatch technician service calls, and/or manage parts, repair, and warranty claims. ServiceBench has received recognition from Deloitte as a ***Fast 500 North America*** company and from *Software Magazine* as one of the most innovative software providers in the world. ServiceBench has achieved 30-50% year-over-year growth for the past five years.

Figure 35. ServiceBench Integrates Range of Post-Sales Service Management Activities



Process	innovation process	Innovation a point of competitive differentiation for the company.
Process	core process	ServiceBench first to integrate complete range of post-sales service management activities through a Web-hosted application.
Offering	product/ service performance	ServiceBench's Web-hosted model lets clients select on an on-demand basis only the modules they need. Web-based model allows ServiceBench to deploy system updates with ease.
Offering	service system	ServiceBench's platform enables it to introduce new modules to handle all aspects of post-sale service delivery.
Offering	customer service	Dedicated customer support team. .
Delivery	channel	ServiceBench grows globally through organic growth and by leveraging relationships with sister divisions of US corporations. Company has generated tremendous word-of-mouth growth amongst US clients.
Delivery	brand	Renamed firm from Sideout Technologies to ServiceBench to better express its brand.
Delivery	customer experience	ServiceBench committed to providing as good a customer experience as its solutions enable its clients to provide to their consumers.
Finance	business model	ServiceBench's on-demand software-as-a-service model unique in industry that previously featured only shrink-wrapped software sales. The model generates monthly recurring revenue streams. Complements this model with professional consulting services.
Finance	value network	ServiceBench's solutions are unique in that they integrate the entire service supply chain.

Table 22. Ten Types of Innovation Analysis: ServiceBench

Helping Clients Think Differently About Their Service Business

Historically, most manufacturers and retailers have tended to regard ***post-sales service*** for their products as a cost center and unfortunate (if necessary) distraction that detracts from their core business operations. ServiceBench works to help clients understand that, on the contrary, efficient after-sale support for products is essential for maintaining customer satisfaction and delivering a memorable customer experience. As Chris van der Harst, Managing Director of ServiceBench Europe, notes, "With increasing product commoditization facing a number of manufacturing industries, companies are starting to realize that delivering compelling service experiences has become a point of competitive differentiation for their firms."

Business Model

ServiceBench delivers its service supply chain management solutions through a ***software-as-a-service*** business model that allows clients to select and implement only the service management modules they require for their business. Says van der Harst, "Unlike traditional enterprise-wide software applications, we only earn revenue if our customers are using the modules on a monthly basis. It's a dynamic that ensures we're exceptionally responsive to customer needs and that we're providing the services they require to effectively run their service businesses." In addition, the ServiceBench on-demand model has the benefit of generating a monthly recurring income stream that decreases revenue variability for the company.

As ServiceBench client relationships have deepened, the company saw an opportunity to complement its Web-based solutions with professional consulting services that leverage ServiceBench expertise in supply chain optimization to help clients align their technology and processes to deliver world-class service.

ServiceBench launched its Professional Services Practice on February 26, 2007. The company uses a five-step methodology to help clients evolve their services lifecycle. They: 1) assess the current state of the client's service business, 2) analyze service performance data, 3) design and prototype new solutions, 4) implement the solution, and 5) benchmark the change. ServiceBench recognizes the critical importance of benchmarking service performance both internally before and after a ServiceBench implementation and then externally against the service standards other companies achieve.

A Compelling Value Proposition

ServiceBench built into each of its modules ***service intelligence analytics*** that can mine service data for strategic information to improve the service process, increase the dependability of products, and reduce operational costs. These powerful analytics help clients discover business-critical patterns, trends, and relationships in their service data – and can help companies begin to "manage by exception."

For example, industry statistics show that 15% of all warranty claims are fraudulent. ServiceBench's Warranty Analytics module helps clients monitor warranty claims across product lines and by regions, helping detect fraudulent warranty claims. The service has saved ServiceBench clients millions. Moreover, the module's "action-oriented dashboard" gives clients early-warning information about trends in product and part failure rates, allowing them to rapidly detect potential defects to a product line.

Steve Zannos, ServiceBench's Senior Director of Professional Services, notes that the company has brought value to entire industry verticals, like appliance manufacturing. "We've been able to take a strategic view across an industry. We've added some benefits to the industry as a whole by being able to set standards in terms of how our online software dispatches service calls and processes warranty claims." In essence, ServiceBench has realized value by bringing scale – through its Web-hosted applications – to several industry verticals important to it and imposing some standardization in how competitors interpret warranty and claims information.

European Expansion and Organizational Innovation

ServiceBench is now establishing its European operations. Chris van der Harst, the Managing Director of ServiceBench Europe, notes that ServiceBench's decision to go international was driven by several factors: 1) extensive opportunity for ServiceBench due to the predominance of services as an economic component of Europe's GDP, and 2) the opportunity to win business with sister European divisions of American clients.

Van der Harst offered lessons for both American companies looking to establish operations in Europe and European companies looking to expand to America. He notes that European companies have to be prepared to bring a certain degree of boldness to their brand and marketing strategies, especially if they are looking to compete in ultra-competitive B2C markets in the U.S. He also observed that American consumers tend to have more sophisticated customer service expectations and demands than their European counterparts,

though that gap is slowly beginning to close. From the other perspective, he noted that American corporations, when they expand to Europe, tend to be attracted to countries, like Holland, which combine a wealth of English-speaking talent with a business-friendly regulatory environment.

John Estrada, ServiceBench's Chief Operating Officer, spoke about the company's innovation processes. He noted that the company's innovation efforts start with "deep conversation with our clients followed by market testing and validation. The reality is that new service innovations have to grow through a couple of iterations." Adds van der Harst, "Innovation is a point of competition for our company. We foster a culture of innovation and experimentation that allows us to compete for and attract the best talent to ServiceBench."

6.3 Logistics: Brivo Systems

Company	**Brivo Systems**	**Read this if you want to learn:**
Headquartered	Bethesda, Maryland	• How to create a software-as-a-service business model. • How to realign a struggling organization to address a substantial new market opportunity. • How to wholesale a service – not just a product – offering.
Industry	Logistics	
Company profile	SME, B2B	
Revenues	200% growth over past two years	
# Employees	32	
Year Founded	1999	

Company Profile

Brivo Systems provides – through a ***"software-as-a-service"*** business model – ***Web-hosted building access control solutions*** that enable businesses to control physical access to offices, warehouses, and remote or unmanned buildings. An embedded wireless modem in each device allows Brivo's clients to centrally-assign building access permissions and monitor all building access events through a single Web-interface, regardless of how many buildings a client operates or how remotely they are located.

Thus, Brivo sells both ***physical access control hardware devices*** and a ***Web-based monitoring service***, for which it charges a recurring monthly subscription fee. This service/device combination provides clients the ability to both dynamically control building access rights and view a history of access control events across all of a company's properties from a single Webpage (figure 36.)

Adapting to Market Changes

Brivo Systems, founded in 1999, started as a business-to-consumer company. Its first product, the *SmartBox*, was a high-tech electronic device with a Web application designed to manage e-commerce transactions. Unfortunately, the burst of the "Internet bubble" in 2001 depressed consumer demand for new high-technology products. Forced to find an alternative market and business model, Brivo retooled its hardware and Web-applications to fit the commercial access control market. In this space, Brivo brought forward a ***disruptive innovation*** combining a new technology – *Internet-based applications* – with a new business model – *software-as-a-service*. The transition was not easy, however, as an industry debate raged from 2001-2002 regarding whether it was even acceptable to transmit security information over the Internet and wireless networks, instead of moving it exclusively over dedicated landline phone circuits. In the end, Brivo's compelling technology and service helped evolve the traditionally conservative building security industry.

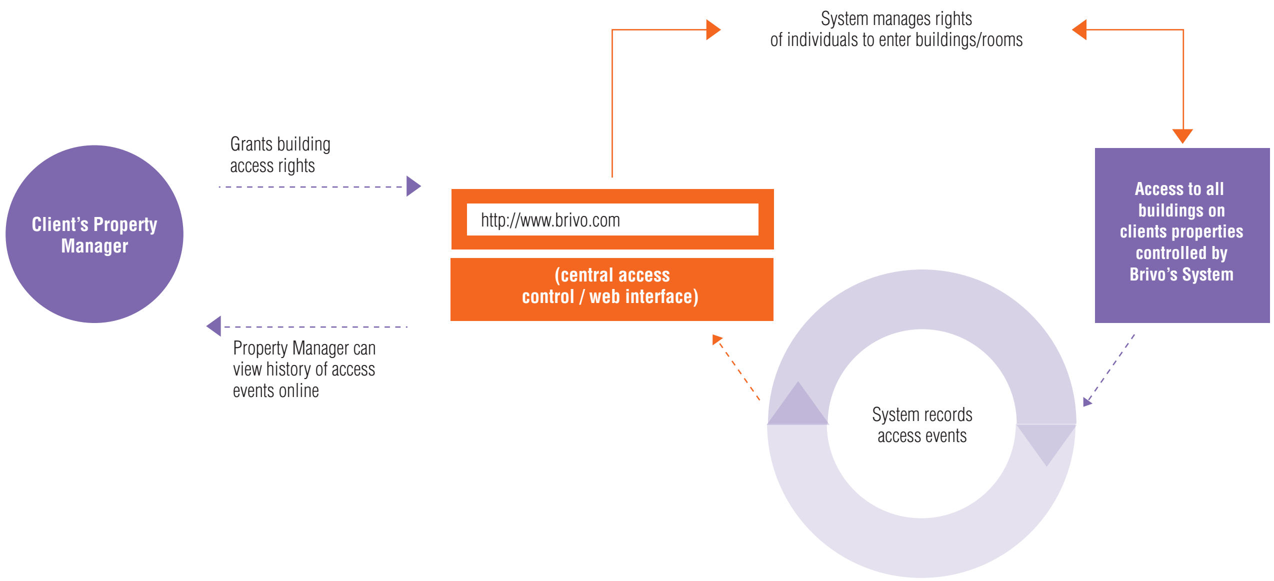
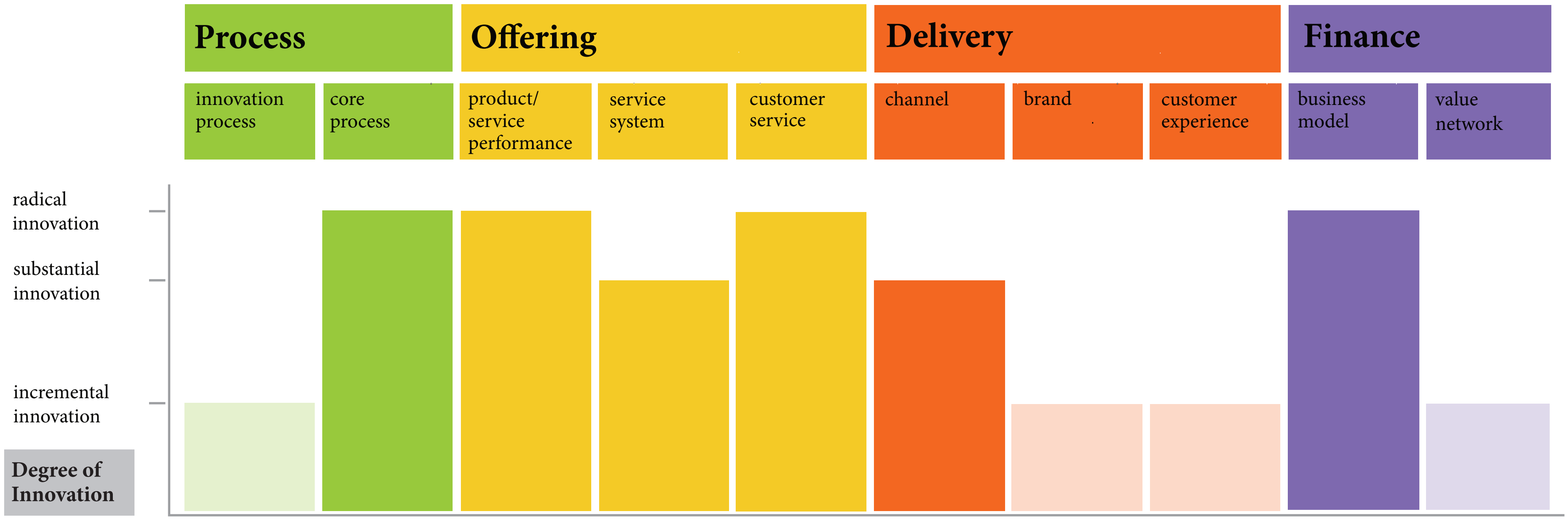


Figure 36. Schematic of Brivo Systems Value Proposition



innovation process	core process	product/ service performance	service system	customer service	channel	brand	customer experience	business model	value network
Brivo has a well-managed innovation process in which ideas from the field are filtered strategically. Three to four substantial innovations are developed annually.	Brivo developed the first Web-hosted building access control and security service.	Brivo's service is the only one in the industry to provide comprehensive access control management for every building a client owns and provide a consolidated view of access events online.	Brivo introduced a "down-market" (i.e. de-featured) offering based on its core platform architecture in the form of a "stand-alone controller unit".	As all Brivo access control devices contain a wireless modem, Brivo can monitor the devices remotely, giving it the ability to diagnose failure modes and fix them from afar.	Brivo sells its products and services through both national and regional dealers. A distribution deal with ADT, the nation's largest security dealer, enhanced Brivo's reach significantly.	Brivo added the word "Systems" to its name to better reflect the value its IT architecture delivers.	Brivo understands that it must create distinct experiences for both its dealers and their end-users when developing its services and products.	Brivo is unique in the industry in that it wholesales both its hardware and service solutions. The company also continues to evaluate different business models, including franchising and "de-featured" or "down-market" innovations.	Not core focus of innovation at Brivo Systems.

Table 23. Ten Types of Innovation Analysis: Brivo Systems

A Comprehensive Offering

Brivo's system provides real-time access control management and visibility for all buildings owned by a client. This *Web-hosted, software-as-a-service model* dramatically reduces the cost of system ownership. System updates are easily deployed to all clients through a centralized Web-server. This Web-based model makes it possible for Brivo to make available new service features to all clients instantly, without requiring them to download new software applications to their desktops. Brivo's architecture has proven particularly effective both at reducing upfront installation costs and the total cost of system ownership when compared with competing systems. Brivo realizes tremendous efficiencies of scale by spreading the cost of its server technology over a large customer base, rather than forcing clients to deploy custom installations at each campus or set of facilities they operate (which is generally how Brivo's competitors deploy their service.)

Peerless Customer Service

In addition to comprehensive access control, Brivo's system architecture allows for real-time visibility into the operational status of all its field-deployed units. Whereas it might take competitors 45 minutes to diagnose a problematic device in the field, Brivo's "on-air" capability collects diagnostic information about the operational status of a device remotely, decreasing the diagnosis time to as little as five minutes. In some cases, Brivo can even fix the problematic device remotely as well.

This *"discovered"* service significantly differentiates Brivo's customer service from its competition. As Brivo CEO Steve Van Till notes, "While our service is unique in enabling customers to comprehensively manage access control rights and events over the Internet, our competitors provide similar (though not Internet-based) building access control services. Where we've been able to substantially distinguish ourselves – and build rock-solid client relationships – is in the superior level of customer service we can provide. It's a standard of service – enabled directly by our IT system architecture – that we alone in the industry are capable of offering." Brivo's service commitment has translated into a 90% retention rate in its dealer base, and has contributed to a highly-impressive "close rate", with Brivo winning contracts from over 60% of prospective clients who witness a live demonstration of Brivo's service.

Refining the Business Model

Brivo's initial business model positioned it as a ***retailer***, selling its products and services directly to commercial end-users. Brivo quickly discovered, however, that dealers in the access control industry – such as industry leader ADT – prefer to maintain exclusive relationships with their clients. Reacting to this, Brivo changed its business model to ***wholesale*** its monthly subscription service (the Web access and control component) to dealers, instead of retailing the monthly subscription service to end-using business clients.

To support its dealers, Brivo created a "Powered by Brivo" ***private labeling*** program that gives dealers the ability to brand the Web access control service as if they were providing clients the service themselves. This private labeling program gives dealers the ability to customize over a dozen branding and identity elements of the Web service.

Brivo has continued to actively experiment with new business models. The company has investigated the possibility of introducing a *franchising model* that would allow industry dealers to license Brivo technology and become their own service providers. Recently, the company has introduced a *down-market innovation* – a single-location access controller that is not connected to the Internet and that does not come paired with the Web monitoring service. CEO Van Till commented that the de-featured offering "allows Brivo to realize profitable, incremental revenues from a market segment we had not served before, but it does not constitute a threat to cannibalize our core business model."

Van Till, who co-founded Brivo in 1999 as its Chief Technology Officer, noted that the company has been through several evolutions. Van Till cites a commitment to customer intimacy and an ability to rapidly and flexibly adjust its business model to changing market conditions and customer needs as the reasons why Brivo has not only survived, but prospered, with a 200% growth rate over the past two years.

Meet the authors of this research:

Stephen Ezell is a co-founder of Peer Insight and serves as the VP of Client Services. Stephen has co-founded three successful innovation ventures, including a boutique investment bank and a high-tech services firm. Stephen came to Peer Insight from the NASDAQ Stock Market, where in their New Service Development group he spearheaded the creation of NASDAQ's Market Intelligence Desk and the NASDAQ Corporate Services Network.

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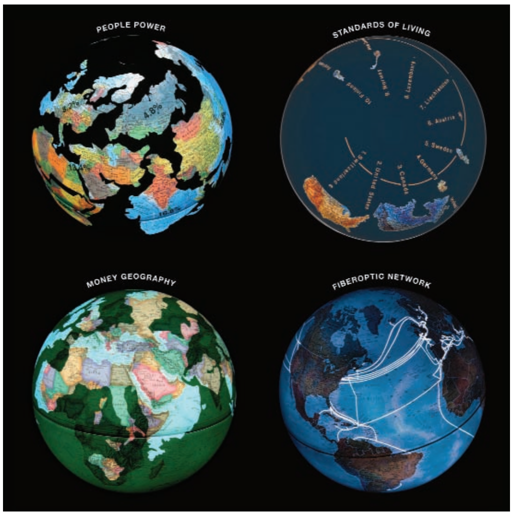
About Peer Insight LLC

Peer Insight is a research and consulting firm focused on service innovation, customer experience design, and related topics. Our research forums help business leaders collaborate with their most admired peers based on hard facts, fresh thinking, and candid dialog. Our consulting services help companies create robust innovation engines. We help companies harness the innovation potential of their enterprise and focus it in the hands and hearts of inspired leaders and teams.



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